MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF HUMAN SERVICES

October 1, 2002 through September 30, 2004

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

43-100-05

"...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof."

– Article IV, Section 53 of the Michigan Constitution

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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Including the Provisions of the Single Audit Act

Report Number:
43-100-05

Department of Human Services

October 1, 2002 through September 30, 2004

Released:
December 2005

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Schedules and Financial Statements:

Auditor's Reports Issued

We issued unqualified opinions on the Department of Human Services' (DHS's) financial schedules and on the financial statements of the Children's Trust Fund.

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Internal Control Over Financial Reporting

We identified reportable conditions related to internal control over financial reporting (Findings 1 through 4). We consider Findings 1 and 4 to be material weaknesses.

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Noncompliance or Other Matters Material to the Financial Schedules and/or Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial schedules and/or financial statements that are required to be reported under *Government Auditing Standards*. However, we did identify reportable conditions (Findings 1, 3, 4, and 17).

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Federal Awards:

Auditor's Reports Issued on Compliance

We audited 16 programs as major programs and identified known questioned costs of approximately $34 million and known and likely questioned costs totaling $651 million. DHS expended a total of $5.5 billion in federal awards during the two-year period ended September 30, 2004. We issued 8 unqualified opinions, 1 qualified opinion, and 7 adverse opinions. The opinions issued by major program are identified on the back of this summary.

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Internal Control Over Major Programs

We identified reportable conditions related to internal control over major programs (Findings 4 through 6, 8 through 18, and 20 through 23). Also, we identified other reportable conditions related to internal control (Finding 7). We consider Findings 4, 8, 9, 11 through 16, and 22 to be material weaknesses. In addition, we identified 19 recommendations repeated from our prior report for the two-year period ended September 30, 2002, many of which were

also reported in earlier DHS Single Audits (Findings 7 through 9, 11 through 17, 19, and 22).

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Required Reporting of Noncompliance

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 5, 6, and 8 through 20).

Also, the results of our auditing procedures disclosed other instances of reportable noncompliance (Finding 7).

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Systems of Accounting and Internal Control:

We determined that DHS was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

CFDA Number	***Program or Cluster Title***	***Compliance Opinion***
10.551 and 10.561	Food Stamp Cluster	Unqualified
16.523	Juvenile Accountability Incentive Block Grants	Unqualified
16.588	Violence Against Women Formula Grants	Adverse
81.042	Weatherization Assistance for Low-Income Persons	Unqualified
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Unqualified
93.558	Temporary Assistance for Needy Families	Adverse
93.563	Child Support Enforcement	Unqualified
93.566	Refugee and Entrant Assistance: State Administered Programs	Adverse
93.568	Low-Income Home Energy Assistance	Qualified
93.575 and 93.596	Child Care Cluster	Adverse
93.585	Social Services in Empowerment Zones and Enterprise Communities	Unqualified
93.658	Foster Care: Title IV-E	Adverse
93.659	Adoption Assistance	Adverse
93.674	Chafee Foster Care Independent Living	Adverse
93.778	Medicaid Cluster	Unqualified
96.001	Disability Insurance/SSI Cluster	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://www.audgen.michigan.gov

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Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 8, 2005

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Human Services (DHS) for the period October 1, 2002 through September 30, 2004.

This report contains our report summary; our independent auditor's reports on the financial schedules and financial statements; and the DHS financial schedules, the Children's Trust Fund financial statements, notes to the financial schedules and financial statements, and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains DHS's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORTS, FINANCIAL SCHEDULES, AND FINANCIAL STATEMENTS

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedules

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

We have audited the financial schedules of the Department of Human Services for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and transfers and the sources and disposition of authorizations for the Department of Human Services' General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and transfers and the sources and disposition of authorizations of the Department of Human Services for the fiscal years ended September 30, 2004 and September 30, 2003 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

June 20, 2005, except for Note 9 as to
which the date is September 15, 2005

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

We have audited the financial statements of the Children's Trust Fund, Department of Human Services, as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents. These financial statements are the responsibility of the State Child Abuse and Neglect Prevention Board's management and the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Children's Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its permanent funds as of September 30, 2004 and September 30, 2003

and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Children's Trust Fund, Department of Human Services, as of September 30, 2004 and September 30, 2003 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2005 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

June 20, 2005

DEPARTMENT OF HUMAN SERVICES
Schedule of General Fund Revenues and Transfers
Fiscal Years Ended September 30
(In Thousands)

	2004	2003
REVENUES		
From federal agencies	$ 2,774,109	$ 2,703,080
From local agencies	57,666	49,540
From services	6	8
From licenses and permits	248	
Miscellaneous:		
Child support recovery of grants	42,480	46,594
Other sources	30,192	38,640
Total Revenues	$ 2,904,701	$ 2,837,862
TRANSFERS		
Total Transfers	0	0
Total Revenues and Transfers	$ 2,904,701	$ 2,837,862

The accompanying notes are an integral part of the financial schedules.

Amounts may not foot due to rounding.

DEPARTMENT OF HUMAN SERVICES
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30
(In Thousands)

	2004	2003
SOURCES OF AUTHORIZATIONS (Note 2)		
General purpose appropriations	$ 1,081,141	$ 1,115,158
Budgetary transfers in	2,357	
Budgetary adjustment	26,911	29,379
Balances carried forward	30,847	32,190
Restricted financing sources	2,855,183	2,789,323
Less: Intrafund expenditure reimbursements	(519)	(519)
Total	$ 3,995,920	$ 3,965,531
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and transfers out (Note 5)	$ 3,949,290	$ 3,885,988
Less: Intrafund expenditure reimbursements	(519)	(519)
Net expenditures and transfers out	$ 3,948,771	$ 3,885,469
Balances carried forward:		
Multi-year projects	$ 7,795	$ 7,838
Encumbrances	3,322	6,398
Restricted revenues - not authorized		23,150
Total balances carried forward	$ 11,117	$ 37,386
Balances lapsed (Note 5)	$ 37,157	$ 42,676
Overexpended	$ (1,125)	$
Total	$ 3,995,920	$ 3,965,531

The accompanying notes are an integral part of the financial schedules.

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Balance Sheet
As of September 30
(In Thousands)

	2004	2003
ASSETS		
Current Assets:		
Equity in common cash (Note 4a)	$ 8,465	$ 290
Securities lending collateral	3,063	
Other current assets	155	260
Total Current Assets	$ 11,683	$ 550
Investments (Notes 4a and 4c)	14,334	21,577
Total Assets	$ 26,017	$ 22,127
LIABILITIES AND FUND BALANCES		
Liabilities:		
Warrants outstanding	$ 10	$ 22
Security lending obligations	3,063	
Accounts payable and other liabilities	1,158	102
Amounts due to other funds	3	2
Total Liabilities	$ 4,234	$ 127
Fund Balances:		
Reserved for funds held as permanent investments (Notes 4b and 8)	$ 20,000	$ 20,000
Encumbrances	5	
Unreserved (Note 8)	1,777	2,000
Total Fund Balances	$ 21,782	$ 22,000
Total Liabilities and Fund Balances	$ 26,017	$ 22,127

The accompanying notes are an integral part of the financial statements.

Amounts may not foot due to rounding.

CHILDREN'S TRUST FUND
Department of Human Services
Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiscal Years Ended September 30
(In Thousands)

	2004	2003
REVENUES		
Investment income (Note 4c)	$ 846	$ 707
From federal agencies	832	885
Other donations	802	947
Total Revenues	$ 2,480	$ 2,540
EXPENDITURES		
Grants	$ 1,837	$ 1,786
Administration	858	795
Total Expenditures	$ 2,695	$ 2,582
Excess of Revenues Over (Under) Expenditures	$ (215)	$ (42)
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	$	$ 1
Transfers to other funds	(3)	(6)
Total Other Financing Sources (Uses)	$ (3)	$ (4)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (218)	$ (46)
Fund Balances - Beginning of fiscal year	22,000	22,046
Fund Balances - End of fiscal year	$ 21,782	$ 22,000

The accompanying notes are an integral part of the financial statements.

Amounts may not foot due to rounding.

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Human Services (DHS) for the fiscal years ended September 30, 2004 and September 30, 2003. The financial transactions of DHS are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR).*

The accompanying financial statements report the financial position and changes in financial position of DHS's Children's Trust Fund (CTF) as of and for the fiscal years ended September 30, 2004 and September 30, 2003. The CTF is a part of the State of Michigan's reporting entity and is reported as a permanent fund in the *SOMCAFR*.

The notes accompanying these financial schedules and financial statements relate directly to DHS and the CTF. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; State Treasurer's common cash; deposits and investments; pension benefits and other postemployment benefits; and contingencies and commitments.

Executive Order No. 2004-38 renamed the Family Independence Agency as the Department of Human Services effective March 15, 2005. Executive Order No. 2003-18, which became effective December 7, 2003, transferred the Bureau of Family Services, an organizational unit with the Department of Labor and Economic Growth (DLEG) (formerly the Department of Consumer and Industry Services), from DLEG to DHS. In addition, Executive Order No. 2003-18 transferred various programs from DHS to DLEG.

b. Basis of Accounting and Presentation

The financial schedules and the CTF financial statements contained in this report are presented using the current financial resources measurement

focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles (GAAP) applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and transfers and the sources and disposition of authorizations for DHS's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DHS or the State's General Fund in conformity with GAAP.

The accompanying financial statements present only the CTF. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position of the State of Michigan or its permanent funds in conformity with GAAP.

c. Amounts Owed the State

Current and former public assistance clients owe DHS various amounts because of overpayments or advances made in anticipation of other sources. Overpayments have been entered on the Automated Recoupment System (ARS) or accounts receivable records, and advances are entered on DHS's potential accounts receivable records. DHS identified the following overpayments and advances for the Family Independence Program, State Disability Assistance, Refugee Assistance, Food Stamps Program (known as the Food Assistance Program in the

State of Michigan), State Emergency Relief, and Medical Assistance Program (in thousands):

	September 30	
	2004	2003
Overpayments and advances:		
ARS	$ 109,154	$ 103,937
Accounts receivable and potential accounts receivable	$ 10,376	$ 10,579

Food Stamps Program overpayments account for $45.1 million and $32.1 million of the ARS amount identified in the table for fiscal years 2003-04 and 2002-03, respectively. However, DHS is allowed to retain only 20% of the overpayments related to inadvertent household errors, 35% for intentional program violations, and no percentage for State administrative errors. The Food and Nutrition Service (FNS), U.S. Department of Agriculture (USDA), issues letter of credit reductions for the amounts that DHS does not get to retain. DHS collected approximately 8% and 2% of the overpayments and advances of ARS and of the accounts receivable and potential accounts receivable, respectively, in the fiscal years ended September 30, 2004 and September 30, 2005.

Because of the uncertainty of collecting overpayments and advances, DHS, in accordance with GAAP, recorded accounts receivable using a 60-day average of collections for accounts receivable and potential accounts receivable and used actual collections in the first 30 days and estimated collections for the next 30 days of the new fiscal year for ARS.

The accounts receivable and related accounts payable to the federal government were as follows (in thousands):

	September 30	
	2004	2003
Accounts receivable:		
ARS	$ 691	$ 855
Accounts receivable and potential accounts receivable	$ 314	$ 281
Accounts payable:		
ARS	$ 274	$ 339
Accounts receivable and potential accounts receivable	$ 6	$ 4

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.

b. Budgetary transfers in (out): Legislatively approved transfers of spending authorization between accounts within a department or between departments. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by Office of Financial Management (OFM), Department of Management and Budget.

c. Budgetary adjustment: Section 212, Act 172, P.A. 2003, and Section 212, Act 529, P.A. 2002, appropriate an amount in addition to the funds appropriated in part 1 of the Acts (for write-offs of accounts receivable, deferral, and prior year obligations in excess of prior year appropriations) equal to the total write-offs and prior year expenditures not to exceed amounts available in prior year revenues or current year revenues in excess of authorized amounts. The budgetary adjustment amounts for fiscal year 2003-04 and fiscal year 2002-03 were $26.9 million and $29.4 million, respectively.

d. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized. Ending balances carried forward in fiscal year 2002-03 totaled $37.3 million and beginning balances carried forward in fiscal year 2003-04 totaled $30.8 million. The difference of $6.5 million was due to the transfer of $6.0 million of authorization related to the Michigan Child Support Enforcement System (MiCSES) penalty refunds to the judicial branch (see Note 7) and the transfer of $0.5 million related to the Michigan Commission for the Blind and the Michigan Commission on Disability Concerns transferred to the Department of Labor and Economic Growth per Executive Order No. 2003-18.

e. Restricted financing sources: Collections of restricted revenues, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized.

f. Intrafund expenditure reimbursements: Funding from other General Fund departments to finance a program or a portion of a program that is the responsibility of the receiving department.

g. Expenditures: Charges incurred for work performed, supplies and materials delivered, services rendered, and grants, regardless of whether payment has been made.

h. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. The carry-forwards reported were for Food Stamps Program reinvestment in fiscal year 2003-04 and for DHS

Automated Social Services Information Systems project and other data system enhancements in fiscal year 2002-03.

i. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

j. Restricted revenues - not authorized: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. A significant carry-forward of this type was $20.9 million for MiCSES penalty refunds returned to DHS by the federal government in fiscal year 2002-03.

k. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year. Significant lapses in fiscal year 2003-04 included a lapse of $11.9 million in daycare services and $11.9 million in adoption subsidies. Significant lapses in fiscal year 2002-03 included a lapse of $7.1 million in the Family Independence Program, $6.2 million for the data system enhancement project, $5.1 million in the information technology data systems enhancement work projects, and $4.1 million in payroll taxes and fringe benefits.

l. Overexpended: The total overexpenditure of line-item authorizations. DHS is required to seek a supplemental appropriation to authorize the expenditure. Overexpenditures that occurred in fiscal year 2003-04 totaling $1.1 million in DHS appropriations for Child Support Enforcement Operations, Legal Support Contracts, and the Child Support Distribution Computer System were the result of sources of funds as budgeted not materializing. Supplemental appropriations were not sought. However, DHS is in the process of submitting the outstanding payables less than $1,000 to the State Administrative Board. Also, DHS is in the process of working with its obligees to encourage them to seek payment of outstanding payables greater than $1,000 through the Court of Claims. These remedies would allow DHS to make payment of the outstanding payables using fiscal year 2004-05 appropriations.

Note 3 Contingencies and Commitments

a. Estimated Mispayments for Major Public Assistance Programs

The DHS Office of Quality Assurance (OQA) conducts ongoing quality assurance reviews of cases within the Food Stamps Program and the Medical Assistance Program (Medicaid, Title XIX, which is generally administered by the Department of Community Health). Based on its reviews, OQA projected the following mispayments, excluding underpayments, for federal program reporting purposes (in thousands):

	September 30	
	2004	2003
Food Stamps Program	$ 62,453	$ 84,425
Medicaid	$ 52,870	$ 72,498

Based on the preceding results, OQA projects an error rate. The USDA reviews a subsample from each state and computes a national average error rate, which is compared to Michigan's rate for the Food Stamps Program. Sanctions are imposed for the Food Stamps Program for states with higher error rates than the national average. DHS estimated a sanction (as of February 14, 2005) in the amount of $1.5 million for fiscal year 2003-04. Federal sanctions that may result in a loss for the Food Stamps Program are discussed in this note in item b(2). There will be no sanctions for Medicaid for fiscal years 2003-04 and 2002-03.

These mispayment amounts are not required to be reported in the schedule of findings and questioned costs.

b. Federal Penalties, Settlement Agreements, and Accounts Payable

(1) Accounts Payable to Federal Government in Connection with DHS's ARS

DHS potentially owes the federal government $33.6 million and $37.2 million for fiscal years 2003-04 and 2002-03, respectively, for its share of the ARS account receivable collections (see Note 1c.) in connection with the Family Independence Program. There is no litigation and the Attorney General is not involved.

(2) Settlement Agreements with the USDA

Because DHS's Food Stamps Program error rates were above the national average through fiscal year 2002-03, the USDA imposed sanctions on DHS. The USDA imposed a total of $89.3 million of sanctions through fiscal year 2002-03 and had not published sanction liability amounts for fiscal year 2003-04. However, as of February 14, 2005, DHS estimated an additional $1.5 million of sanctions for fiscal year 2003-04. DHS entered into settlement agreements with the USDA to resolve the sanctions through fiscal year 2001-02. The settlement agreements often allow for DHS's reinvestment in initiatives to reduce the mispayment rate rather than repayment. Amounts to be reinvested by DHS are recorded as expenditures when incurred. The USDA's FNS also deferred payment on $18.2 million of the sanctioned amount. FNS will waive deferred amounts if DHS achieves specified targets for reduction in the mispayment rates. It is reasonably possible that FNS may also require the reinvestment of State dollars for the fiscal year 2003-04 sanctions rather than repayment.

As of January 31, 2005, federal Food Stamps Program sanctions that may result in a loss to DHS totaled $42.2 million. A summary of the sanctions and settlement agreements follows:

Food Stamps Program
Sanctions and Settlement Agreements
As of January 31, 2005
(In Thousands)

Fiscal Year	Initial Sanction	Reinvestment Plan	Reinvestment Plan Amount	Reinvestment Expenditures	Remaining Reinvestment	FNS Waiver of Sanction	Deferred Payment at Risk	Penalty Payments
1995-96	$ 3,388	Plan I	$ 254	$ 254	$	$ 1,694	$	$
		Plan IA	720	720				
		Plan IB	720	720				
1996-97	2,771	Plan I	208	208		1,385		
		Plan IA	589	589				
		Plan IB	589	589				
1997-98	15,756	Plan II	7,878	7,878		2,626		1,707
		Plan IIA	919	822	97			
		Plan IIB	2,626	192	2,434			
1998-99	19,773	Plan III	9,887	9,887				
		Plan IIA	1,030		1,030			1,810 *
		Plan IIA						103
		Plan IIIA	4,000		4,000			
		Plan IIB	2,943	192	2,751			
1999-2000	8,954	Plan IV	5,820	5,820				
		Plan IIIA	3,134		3,134			
2000-01	13,921	Plan V	3,480	3,480			5,800	4,641
2001-02	24,735	Plan V	12,367	3,240	9,127		12,368	
2002-03 **								
Total	$ 89,298		$ 57,164	$ 34,591	$ 22,573	$ 5,705	$ 18,168	$ 8,261

* This penalty payment is outstanding, whereas the others have been paid.

** FNS is changing the way it computes the Food Stamps Program error rate. Fiscal year 2002-03 was held harmless.

Total loss to DHS =	Remaining reinvestment	$ 22,573
	Deferred payment at risk	18,168
	Estimated fiscal year 2003-04 sanction	1,500
		$ 42,241

c. Title IV-E Foster Care Claims

The purpose of the federal Title IV-E Foster Care eligibility review that took place in April 2004 was to determine whether payments were made on behalf of eligible children and to eligible homes and institutions in accordance with the Social Security Act and regulations. The financial

penalty taken for this primary review was for the payments, including the administrative costs, associated with the 12 error cases and the two non-error cases that had overpayments. The U.S. Department of Health and Human Services (HHS) disallowed $283,224 in federal Title IV-E Foster Care financial participation. This penalty was paid back to the federal government in fiscal year 2003-04. A secondary review of 150 cases will be conducted in November 2005. A program improvement plan was submitted to HHS. DHS is estimating that it is reasonably possible a $22.0 million penalty could result in fiscal year 2005-06 based on the upcoming secondary review for November 2005.

Note 4 Children's Trust Fund (CTF)

a. Investments

In fiscal year 2001-02, Act 249, P.A. 1982, was amended to give the State Treasurer more investment options for the CTF. As a result, the CTF's fiscal year 2002-03 investment holdings were expanded. The State Treasurer had the same authority to invest the assets of the CTF as was granted to an investment fiduciary under the Public Employee Retirement System Investment Act, pursuant to Sections 38.1132 - 38.1140 of the *Michigan Compiled Laws*. "Equity in common cash" represents an interest in the State's common cash pool, which is used by most State funds as a short-term investment vehicle.

Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* requires certain disclosures regarding policies and practices with respect to investments and the custodial risk associated with them. Disclosures pursuant to GASB Statement No. 3 for the State's common cash pool are included in the notes to the *SOMCAFR*. All of the investments of the CTF were insured or registered or held by the State or its agent in the State's name (GASB risk category 1).

At September 30, 2004 and September 30, 2003, the CTF held investments in U.S. government agency or government-sponsored enterprise securities and corporate bonds in the name of the State. All investments were reported at fair value.

b. Expenditure Limitation of the CTF

Act 291, P.A. 2000, provided for a transfer of $13.1 million from the General Fund during fiscal year 1999-2000 to bring the CTF's total assets to an amount exceeding $20 million. Only the earnings credited to the CTF are available for disbursement once the total assets of the CTF exceed the $20 million corpus. Revenues are derived primarily from grants from the federal government, gifts and donations, and interest on investments.

c. Unrealized Investment Gain/Loss

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* DHS decreased investment income by $202,720 in fiscal year 2003-04 and $220,489 in fiscal year 2002-03 to reflect the change in fair market value of investments.

Note 5 Payroll and Fringe Benefit Accrual

In fiscal year 2003-04, OFM changed its method of computing and recording accrued payroll and fringe benefit expenditures. In the *SOMCAFR*, the expenditures are not reported at the agency level; instead, they are presented at the Statewide level. OFM has issued a waiver which allows departments to report these transactions in their financial schedules for the fiscal year ended September 30, 2004. Reporting these transactions at the department level resulted in a $6.9 million increase to expenditures and transfers out, a $4.5 million increase to restricted financing sources, and a $2.4 million decrease to balances lapsed.

Note 6 Recoveries for Cash Assistance Related to AFDC Program

HHS issued a review report dated March 18, 2003 entitled "Review of Aid to Families with Dependent Children [AFDC] Overpayment Recoveries for the Period July 1, 1996 Through June 30, 2002." During the period of the review, DHS offset AFDC overpayment collections through the Temporary Assistance for Needy Families (TANF) Program, which was the successor program after AFDC was discontinued. This recognized the need to report the collections to the federal funding source through the new public assistance program claim process for TANF. However, HHS's review of AFDC overpayment collections recommended that DHS refund directly to HHS $15.2 million for the federal share of recovered AFDC payments. DHS has agreed to refund the

$15.2 million and did so in fiscal year 2002-03. In addition, HHS requested that DHS refund $3.0 million for the AFDC portion of the $6.1 million that contained a mix of AFDC and TANF recoveries. The $3.0 million was paid in fiscal year 2003-04.

Note 7 Michigan Child Support Enforcement System (MiCSES):

HHS penalized DHS $38.6 million in fiscal year 2000-01 for failing to have an operational Statewide computerized enforcement system in effect October 1, 2000.

DHS received federal certification of MiCSES on November 25, 2003. DHS recovered $34.8 million in fiscal year 2002-03 of the $38.6 million penalty that had been imposed. DHS expended $13.9 million in fiscal year 2002-03, transferred $6.0 million to the judicial branch in fiscal year 2002-03, and carried forward $14.9 million restricted revenue in fiscal year 2003-04.

Note 8 Differences in Reporting From the *SOMCAFR*

Section 21.171 of the *Michigan Compiled Laws* provides that only the earnings credited to the CTF are available for disbursement once the total assets of the fund exceed $20 million. DHS overstated the amount reserved for funds held as permanent investments and understated unreserved fund balance by $625,000 and $828,000 in fiscal years 2003-04 and 2002-03, respectively.

As a result, the CTF balance sheet was adjusted for the fiscal years ended September 30, 2004 and September 30, 2003 from the amount reported in the fiscal year 2003-04 and 2002-03 *SOMCAFR*. The reserve for funds held as permanent investments was decreased and the unreserved fund balance was increased by $625,000 and $828,000 for the fiscal years ended September 30, 2004 and September 30, 2003, respectively. OFM has issued a waiver which allows for this different presentation than was reported in the *SOMCAFR* for the fiscal years ended September 30, 2004 and September 30, 2003.

Note 9 Subsequent Events

DHS received a TANF penalty letter from HHS on May 19, 2005, assessing a potential $7.5 million penalty for failing to apply sanctions to clients receiving TANF assistance for client noncooperation with child support and/or paternity establishment. DHS submitted a corrective action plan to HHS on July 12, 2005 indicating complete resolution of the violation by December 31, 2008.

HHS approved the plan September 15, 2005. If the plan successfully reduces its sanction application errors to an acceptable level, HHS will likely forgive the penalty. If the plan is not successful in reducing the errors to an acceptable level, it is very likely that HHS will assess the $7.5 million penalty. DHS would also be required to replace the $7.5 million with State funds that may not be included in its maintenance of effort obligation.

SUPPLEMENTAL FINANCIAL SCHEDULE

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2002 through September 30, 2004
(In Thousands)

Federal Agency/Program or Cluster	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Agriculture					
Food Stamp Cluster:					
Direct Programs:					
Food Stamps	10.551		$ 780,934	$	$ 780,934
State Administrative Matching Grants for Food Stamp Program	10.561		82,993	3,967	86,960
Total Food Stamp Cluster			$ 863,927	$ 3,967	$ 867,894
Child Nutrition Cluster:					
Pass-Through Programs:					
Michigan Department of Education					
School Breakfast Program	10.553	197 Breakfast	$ 510	$	$ 510
National School Lunch Program	10.555	USDA 195, Sect 4, USDA 196, Sect 11, 198 Snacks	38		38
Total Child Nutrition Cluster			$ 548	$ 0	$ 548
Total U.S. Department of Agriculture			**$ 864,475**	**$ 3,967**	**$ 868,442**
U.S. Department of Housing and Urban Development					
Direct Program:					
Supportive Housing Program	14.235		$ 3	$ 1,013	$ 1,016
Total U.S. Department of Housing and Urban Development			**$ 3**	**$ 1,013**	**$ 1,016**
U.S. Department of Justice					
Direct Programs:					
Offender Reentry Program	16.202		$	$	$ 0
Juvenile Accountability Incentive Block Grants	16.523		751	6,291	7,042
Supervised Visitation, Safe Havens for Children (Supervised Visitation)	16.527		47	93	140
Juvenile Justice and Delinquency Prevention: Allocation to States	16.540		1,200	561	1,761
Title V: Delinquency Prevention Program	16.548			1,446	1,446
Part E: State Challenge Activities	16.549			459	459
Violence Against Women Formula Grants	16.588		721	3,072	3,793
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589		10	195	205
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		79		79
Total Direct Programs			$ 2,808	$ 12,117	$ 14,925
Pass-Through Program:					
Michigan Department of Community Health					
Residential Substance Abuse Treatment for State Prisoners	16.593	90002-5S00, 70862-2K00	$ 1,093	$	$ 1,093
Total U.S. Department of Justice			**$ 3,901**	**$ 12,117**	**$ 16,018**
U.S. Department of Labor					
Direct Programs:					
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		$ 4	$	$ 4
Total U.S. Department of Labor			**$ 4**	**$ 0**	**$ 4**

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2004				
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	$ 895,796	$	$ 895,796	$ 1,676,730
	82,300	4,391	86,691	173,651
	$ 978,096	$ 4,391	$ 982,487	$ 1,850,381
197 Breakfast	$ 209	$	$ 209	$ 719
USDA 195, Sect 4, USDA 196, Sect 11, 198 Snacks	325		325	363
	$ 534	$ 0	$ 534	$ 1,082
	$ 978,630	**$ 4,391**	**$ 983,021**	**$ 1,851,463**
	$	$ 997	$ 997	$ 2,013
	$ 0	**$ 997**	**$ 997**	**$ 2,013**
	$ 14	$ 64	$ 78	$ 78
	453	4,310	4,763	11,805
	54	270	324	464
	1,012	1,480	2,492	4,253
		577	577	2,023
		51	51	510
	174	3,640	3,814	7,607
	18	273	291	496
	118		118	197
	$ 1,843	$ 10,665	$ 12,508	$ 27,433
90002-5S00	$ 495	$	$ 495	$ 1,588
	$ 2,338	**$ 10,665**	**$ 13,003**	**$ 29,021**
	$ 309	$	$ 309	$ 313
	$ 309	**$ 0**	**$ 309**	**$ 313**

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2002 through September 30, 2004
(In Thousands)
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003: Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Energy					
Direct Program:					
Weatherization Assistance for Low-Income Persons	81.042		$ 151	$ 14,894	$ 15,045
Total U.S. Department of Energy			**$ 151**	**$ 14,894**	**$ 15,045**
U.S. Department of Education					
Special Education Cluster					
Pass-Through Programs:					
Michigan Department of Education					
Special Education: Grants to States	84.027	0440/61, 0490/64, 030490/EODS, 030490/TS	$ 292	$	$ 292
Wayne County Regional Educational Service Agency					
Special Education: Grants to States	84.027		71		71
Total Special Education Cluster			$ 363	$ 0	$ 363
Direct Programs:					
Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126		$ 9,722	$ 220	$ 9,942
Independent Living: State Grants	84.169		152	68	220
Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	84.177		1,435		1,435
Supported Employment Services for Individuals with Severe Disabilities	84.187		87		87
Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	84.265		(9)		(9)
Total Direct Programs			$ 11,387	$ 288	$ 11,675
Pass-Through Programs:					
Michigan Department of Labor and Economic Growth					
Adult Education: State Grant Program	84.002	031190/310013	$ 31	$	$ 31
Vocational Education: Basic Grants to States	84.048	033320/62132	78		78
Rehabilitation Services: Vocational Rehabilitation Grants to States	84.126	H126A-03-0031	245		245
Total Michigan Department of Labor and Economic Growth			$ 354	$ 0	$ 354
Michigan Department of Education					
Title I Grants to Local Educational Agencies	84.010	021590/0203, 031590/0203	$ 464	$	$ 464
Special Education: Grants for Infants and Families with Disabilities	84.181	031330/IACFIA	$ 128		$ 128
Total Michigan Department of Education			$ 592	$ 0	$ 592
Total Pass-Through Programs			$ 946	$ 0	$ 946
Total U.S. Department of Education			**$ 12,696**	**$ 288**	**$ 12,984**
U.S. Department of Health and Human Services					
Child Care Cluster					
Direct Programs:					
Child Care and Development Block Grant	93.575		$ 56,517	$ 5,617	$ 62,134
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		110,034	10,935	120,969
Total Child Care Cluster			$ 166,551	$ 16,552	$ 183,103

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2004				
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	$	$ 16,300	$ 16,300	$ 31,345
	$ 0	**$ 16,300**	**$ 16,300**	**$ 31,345**
030440/0203;040440/0304; 040490/CB;040490/EODS; 040490/TS	$ 129	$	$ 129	$ 421
	35	6	41	112
	$ 164	$ 6	$ 170	$ 533
	$	$	$	$ 9,942
				220
				1,435
				87
				(9)
	$ 0	$ 0	$ 0	$ 11,675
041190/410014	$ 58	$	$ 58	$ 89
043320/40102	34		34	112
				245
	$ 92	$ 0	$ 92	$ 446
031700/0304, 041700/0304	$ 526	$	$ 526	$ 990
041330/ACFIA&1	50		50	178
	$ 576	$ 0	$ 576	$ 1,168
	$ 668	$ 0	$ 668	$ 1,614
	$ 832	**$ 6**	**$ 838**	**$ 13,822**
	$ 59,089	$ 6,723	$ 65,812	$ 127,946
	83,205	10,305	93,510	214,479
	$ 142,294	$ 17,028	$ 159,322	$ 342,425

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2002 through September 30, 2004
(In Thousands)
Continued

Federal Agency/Program or Cluster	CFDA * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Medicaid Cluster					
Pass-Through Programs:					
Michigan Department of Community Health					
		05 03 05 MI 5048			
Medical Assistance Program (Medicaid, Title XIX)	93.778	05 03 05 MI 5028	$ 93,104	$	$ 93,104
Total Medicaid Cluster			$ 93,104	$ 0	$ 93,104
Direct Programs:					
Promoting Safe and Stable Families	93.556		$ 5,580	$ 9,487	$ 15,067
Temporary Assistance for Needy Families	93.558		625,119	110,754	735,873
Child Support Enforcement	93.563		128,043	98,123	226,166
Refugee and Entrant Assistance: State Administered Programs	93.566		1,258	7,324	8,582
Low-Income Home Energy Assistance	93.568		96,430	11,033	107,463
Community Services Block Grant	93.569			23,685	23,685
Community Services Block Grant: Discretionary Awards	93.570		51		51
Community Services Block Grant Discretionary Awards:					
Community Food and Nutrition	93.571		16	120	136
Refugee and Entrant Assistance: Discretionary Grants	93.576		176	748	924
Refugee and Entrant Assistance: Targeted Assistance Grants	93.584			788	788
Social Services in Empowerment Zones and Enterprise Communities	93.585			20,077	20,077
Community-Based Family Resource and Support Grants	93.590		136	678	814
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Discretionary Grants	93.592		34		34
Grants to States for Access and Visitation Programs	93.597			275	275
Chafee Education and Training Vouchers Program (ETV)	93.599				0
Head Start	93.600		2	230	232
Adoption Incentive Payments	93.603		2,386	171	2,557
Children's Justice Grants to States	93.643		412		412
Child Welfare Services: State Grants	93.645		9,991		9,991
Adoption Opportunities	93.652		(2)		(2)
Foster Care: Title IV-E	93.658		128,261	1,394	129,655
Adoption Assistance	93.659		93,992		93,992
Social Services Block Grant	93.667		79,075	422	79,497
Child Abuse and Neglect State Grants	93.669		648	146	794
Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	93.671		326	1,993	2,319
Chafee Foster Care Independent Living	93.674		2,872	1,884	4,756
Total Direct Programs			$ 1,174,806	$ 289,332	$ 1,464,138
Pass-Through Programs:					
Michigan Department of Community Health					
Injury Prevention and Control Research and State and Community Based Programs	93.136	VF1/CCV519922-02	$ 307	$ 454	$ 761
International Social Service - United States of America Branch					
U.S. Repatriation	93.579				0
Total Pass-Through Programs			$ 307	$ 454	$ 761
Total U.S. Department of Health and Human Services			**$ 1,434,768**	**$ 306,338**	**$ 1,741,106**

This schedule continued on next page.

For the Fiscal Year Ended September 30, 2004

Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
05 04 05 MI 5048				
05 04 05 MI 5028	$ 80,657	$	$ 80,657	$ 173,761
	$ 80,657	$ 0	$ 80,657	$ 173,761
	$ 5,282	$ 7,098	$ 12,380	$ 27,447
	658,273	102,397	760,670	1,496,543
	91,732	110,939	202,671	428,837
	1,094	6,602	7,696	16,278
	109,962	5,172	115,134	222,597
		25,897	25,897	49,582
				51
		131	131	267
	210	415	625	1,549
		1,341	1,341	2,129
		18,077	18,077	38,154
		832	832	1,646
				34
		326	326	601
	481		481	481
	51	177	228	460
	(20)		(20)	2,537
	289	102	391	803
	9,831		9,831	19,822
				(2)
	121,878	1,905	123,783	253,438
	98,763		98,763	192,755
	85,175	754	85,929	165,426
	477	117	594	1,388
	314	1,994	2,308	4,627
	3,255	2,066	5,321	10,077
	$1,187,047	$ 286,342	$ 1,473,389	$ 2,937,527
VF1/CCV519922-03	$	$ 795	$ 795	$ 1,556
	1		1	1
	$ 1	$ 795	$ 796	$ 1,557
	$1,409,999	**$ 304,165**	**$ 1,714,164**	**$ 3,455,270**

DEPARTMENT OF HUMAN SERVICES
Schedule of Expenditures of Federal Awards
For the Period October 1, 2002 through September 30, 2004
(In Thousands)
Continued

Federal Agency/Program or Cluster	*CFDA* * Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2003 Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Social Security Administration					
Disability Insurance/SSI Cluster					
Direct Program:					
Social Security - Disability Insurance	96.001		$ 67,938	$	$ 67,938
Total Social Security Administration			**$ 67,938**	**$ 0**	**$ 67,938**
Total Expenditures of Federal Awards			$ 2,383,936	$ 338,617	$ 2,722,553

* *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

See accompanying notes to the schedule of expenditures of federal awards.

For the Fiscal Year Ended September 30, 2004				
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
	$ 65,639	$	$ 65,639	$ 133,577
	$ 65,639	**$ 0**	**$ 65,639**	**$ 133,577**
	$2,457,747	$ 336,524	$ 2,794,271	$ 5,516,824

Notes to the Schedule of Expenditures of Federal Awards

Note 1 Basis of Presentation

This schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Department of Human Services (DHS) and is presented on the modified accrual basis of accounting. The information in this SEFA is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the financial schedules and statements.

Note 2 Significant Accounting Policies

The SEFA is prepared in accordance with generally accepted accounting principles. The modified accrual basis of accounting is used in connection with federal expenditures reported on the SEFA. Differences will exist between federal expenditures shown on the SEFA and related federal expenditures on federal financial reports because of additional accrual amounts recorded after the preparation of the federal financial reports for the fiscal year.

Note 3 Grant Awards

a. Federal claims exceeded their grant award authorizations in the following program areas and were not reimbursed for the amounts in excess of the grant award. The expenditures not reimbursed could be reimbursed if program disallowances occur. The SEFA shows the net federal claim amounts (total federal claims less the amounts in excess of the grant awards).

The following claims exceeded their grant award authorizations (in thousands):

		Fiscal Year	
		2003-04	2002-03
(1)	Low-Income Home Energy Assistance (93.568)	$ 2,309	$ 3,983
	Child Welfare Services: State Grants (93.645)	$ 69,546	$ 63,644
	Community-Based Family Resource and Support Grants (93.590) (Children's Trust Fund)	$ 1,866	$ 1,702
(2)	The amount expended for the Food Stamps Program includes the State's share (General Fund/general purpose) of food stamp overissuance collections that are used to fund the cost of collection efforts. Collections in excess of the cost of collection efforts are used to fund the Executive Operations appropriation unit per Section 213, Act 172, P.A. 2003, and Section 213, Act 529, P.A. 2002. Total food stamp overissuance collections are:	$ 1,623	$ 1,114

b. DHS moved grant award money from Temporary Assistance for Needy Families to the Social Services Block Grant as allowed by the Welfare Reform Plan (in thousands):

		Fiscal Year	
		2003-04	2002-03
From:	Temporary Assistance for Needy Families (93.558)	$ (26,932)	$ (20,158)
To:	Social Services Block Grant (93.667)	$ 26,932	$ 20,158

c. Other adjustments on the SEFA include (in thousands):

		Fiscal Year 2003-04	Fiscal Year 2002-03
(1)	DHS did not record expenditures or the related federal revenue for payments made to Michigan State University through the Cooperative Extension Contract for the Food Stamps Program in fiscal year 2002-03. The federal revenue was transferred to Michigan State University in fiscal year 2002-03.		$ 6,016
(2)	DHS did not record expenditures but did record federal revenue for the Michigan Commission for the Blind (84.126, 84.169, 84.177, 84.187, and 84.265) and the Michigan Commission on Disability Concerns (84.126) due to Executive Order No. 2003-18, issued October 2, 2003, which transferred the Michigan Commission for the Blind and the Michigan Commission on Disability Concerns from DHS to the Department of Labor and Economic Growth.	$ 8,881	
(3)	DHS did record expenditures but did not record federal revenue for the Office of Child and Adult Licensing (93.575 and 93.658) due to Executive Order No. 2003-18, issued October 2, 2003, which transferred the Office of Child and Adult Licensing from the Department of Labor and Economic Growth to DHS.	$ 5,339	

Note 4 Title IV-D Penalty Refund (Section 413, Act 172, P.A. 2003)

A Title IV-D federal refund of $34,785,676, related to penalties previously imposed for the Child Support Enforcement System, was recognized as federal revenue in fiscal year 2002-03 but was not a federal claim recognizable on the Title IV-D federal report or as an expenditure of federal awards.

Note 5 Other Footnotes:

a. Federal revenues as reported on DHS's financial schedules will be different from the federal expenditures shown on the SEFA because of the following (in thousands):

		Fiscal Year	
		2003-04	2002-03
(1)	Federal revenue (net) established through write-off of prior year decreasing claims per Section 212, Act 172, P.A. 2003, and Section 212, Act 529, P.A. 2002	$ 8,957	$ 6,259
(2)	Federal share of miscellaneous general purpose revenue recognized as federal revenue to offset prior year decreasing claims	$ 3,302	$ 3,732
(3)	Federal revenue related to federal claims for the purchase of services from other State departments transferred from DHS to the applicable State agencies	$ 58,772	$ 62,260

b. Federal revenue related to prior year federal increasing claims was transferred to general purpose appropriations in the amount of $3,328,600 and $554,200 for fiscal years 2003-04 and 2002-03, respectively.

c. DHS's financial schedules reflect the accrual accounting entries that the Office of Financial Management (OFM) recorded in the amount of $6.9 million for payroll and fringe benefit expenditures for the pay period September 26, 2004 through September 30, 2004. This late entry adjustment was reported at a summary level amount in appropriated fund 2500. OFM issued a waiver for this different presentation than was reported in the fiscal year 2003-04 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The federal share of these payroll and fringe benefit expenditures totaled $4.5 million and are not reflected on the SEFA.

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

We have audited the financial schedules and financial statements of the Department of Human Services as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents, and have issued our reports thereon dated June 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 1 and 4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules and financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule and financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* However, we noted reportable conditions as described in the accompanying schedule of findings and questioned costs in Findings 1, 3, 4, and 17.

This report is intended solely for the information and use of the State Child Abuse and Neglect Prevention Board, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 20, 2005, except for Note 9 as to
which the date is September 15, 2005

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Mrs. Marianne Udow, Director
Department of Human Services
and
Ms. Nancy Moody, Chairperson
State Child Abuse and Neglect Prevention Board
Grand Tower
Lansing, Michigan

Dear Mrs. Udow and Ms. Moody:

Compliance

We have audited the compliance of the Department of Human Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2004. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a

reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the Department of Human Services with the Chafee Foster Care Independent Living Program regarding matching, level of effort, and earmarking requirements nor were we able to satisfy ourselves as to the Department of Human Services' compliance with those requirements by other auditing procedures.

As described in Findings 8, 9, and 11 through 16 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; subrecipient monitoring; and special tests and provisions that are applicable to its Violence Against Women Formula Grants, Temporary Assistance for Needy Families, Refugee and Entrant Assistance: State Administered Programs, Low-Income Home Energy Assistance Program, Child Care Cluster, Foster Care: Title IV-E, Adoption Assistance, and Chafee Foster Care Independent Living Programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the previous paragraph, the Department of Human Services did not comply in all material respects, with the requirements referred to in the first paragraph that are applicable to the Violence Against Women Formula Grants, Temporary Assistance for Needy Families, Refugee and Entrant Assistance: State Administered Programs, Child Care Cluster, Foster Care: Title IV-E, Adoption Assistance, and Chafee Foster Care Independent Living Programs for the two-year period ended September 30, 2004. Also, in our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Department of Human Services' compliance with the requirements of the Chafee Foster Care Independent Living Program regarding matching, level of effort, and earmarking requirements and except for the noncompliance described in the previous paragraph, the Department of Human Services complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its other major federal programs for the two-year period ended September 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 5, 6, and 8 through 20. Further, the results of our auditing procedures disclosed other instances of reportable noncompliance (Finding 7).

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements

that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 through 6, 8 through 18, and 20 through 23. Also, we identified other reportable conditions related to internal control (Finding 7).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 4, 8, 9, 11 through 16, and 22 to be material weaknesses.

This report is intended solely for the information and use of the State Child Abuse and Neglect Prevention Board, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 20, 2005, except for Note 9 as to
which the date is September 15, 2005

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules and Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weakness* identified?	Yes
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance or other matters material to the financial schedules and/or financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except:

<u>Adverse*</u>

Violence Against Women Formula Grants
Temporary Assistance for Needy Families
Refugee and Entrant Assistance: State Administered Programs
Child Care Cluster
Foster Care: Title IV-E
Adoption Assistance
Chafee Foster Care Independent Living

<u>Qualified*</u>

Low-Income Home Energy Assistance

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

* *See glossary at end of report for definition.*

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
16.523	Juvenile Accountability Incentive Block Grants
16.588	Violence Against Women Formula Grants
81.042	Weatherization Assistance for Low-Income Persons
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.566	Refugee and Entrant Assistance: State Administered Programs
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Cluster
93.585	Social Services in Empowerment Zones and Enterprise Communities
93.658	Foster Care: Title IV-E
93.659	Adoption Assistance
93.674	Chafee Foster Care Independent Living
93.778	Medicaid Cluster
96.001	Disability Insurance/SSI Cluster

Dollar threshold used to distinguish between type A and type B programs:	$16,550,472
Auditee qualified as a low-risk auditee*?	No

Section II: Findings Related to the Financial Schedules and Financial Statements

FINDING 430501

1. Schedule of Expenditures of Federal Awards (SEFA)

The Department of Human Services' (DHS's) internal control over financial reporting continued to be unable to ensure that its SEFA preparation process resulted in a reliable, complete, and accurate presentation of its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and State financial management policies. As a result, DHS overstated total SEFA expenditures by $23.6 million and $37.2 million and understated amounts "Distributed to Subrecipients" by $79.5 million and $38.9 million when it released the SEFA to State agencies for the fiscal years ended September 30, 2003 and September 30, 2004, respectively. These inaccuracies required DHS to expend limited resources to correct the SEFA for the Single Audit report.

We reported similar weaknesses in DHS's internal control over its SEFA preparation and reporting in prior audits. DHS's prior audit corrective action plan stated that it would ensure the complete and accurate presentation of its SEFA in accordance with OMB Circular A-133 and State financial management policies.

OMB Circular A-133 requires each recipient of federal awards to prepare a SEFA for the period covered by the recipient's financial schedules and financial statements and to include the SEFA in the recipient's Single Audit* report. Also, OMB Circular A-133 defines internal control as a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of certain objectives, including the reliability of financial reporting. In addition, Section 18.1461 of the *Michigan Compiled Laws* requires

* *See glossary at end of report for definition.*

DHS to prepare an annual SEFA and submit it to the Department of Management and Budget (DMB), the House and Senate Fiscal Agencies, and the Office of the Auditor General. Chapter 24 of DMB's Financial Management Guide (FMG) sets forth the content and format of the SEFA and requires that the SEFA be reconcilable to the information contained in DHS's financial schedules and financial statements.

Our review of DHS's SEFA preparation process and verification of DHS's SEFA for the two-year period ended September 30, 2004 disclosed:

a. DHS included expenditures on its SEFA that did not qualify as expenditures of federal awards as defined in OMB Circular A-133. As a result, DHS overstated expenditures of federal awards by $24.5 million and $29.4 million on its SEFA for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

   Upon our notification of the misstatements, DHS made the necessary adjustments to provide for an accurate SEFA presentation for this report.

b. DHS did not prepare the SEFA in accordance with State financial management policies. DHS did not properly account for adjustments that related to prior years' activities and did not reconcile internal information used to determine the classification of federal awards expended to amounts recorded in the Michigan Administrative Information Network* (MAIN). As a result, DHS understated total expenditures of federal awards by $0.9 million for the fiscal year ended September 30, 2003 and overstated total expenditures of federal awards by $7.8 million for the fiscal year ended September 30, 2004. In addition, DHS understated amounts "Distributed to Subrecipients" and overstated amounts "Directly Expended" by $55.9 million and $37.3 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

   Upon our notification of the misstatements, DHS made the necessary adjustments to total expenditures of federal awards and made most of the adjustments for amounts "Distributed to Subrecipients" totaling $52.8 million

* *See glossary at end of report for definition.*

and $32.6 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

c. DHS did not correctly determine whether payments made to entities constituted expenditures of a federal award by a subrecipient* or payments for goods and services to a vendor. As a result, DHS understated amounts "Distributed to Subrecipients" and overstated amounts "Directly Expended" by $23.7 million and $1.6 million for the fiscal years ended September 30, 2003 and September 30, 2004, respectively.

   OMB Circular A-133 provides guidance for determining whether payments made to entities constitute expenditures of a federal award by a subrecipient or payments for goods and services to a vendor.

   Upon our notification of the misstatements, DHS made most of the adjustments for amounts "Distributed to Subrecipients" totaling $18.5 million for the fiscal year ended September 30, 2003.

RECOMMENDATION

FOR THE THIRD CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS SEFA PREPARATION PROCESS TO ENSURE THE RELIABLE, COMPLETE, AND ACCURATE PRESENTATION OF ITS SEFA IN ACCORDANCE WITH OMB CIRCULAR A-133 AND STATE FINANCIAL MANAGEMENT POLICIES.

FINDING 430502

2. Backup and Disaster Recovery Plans

DHS, in conjunction with the Department of Information Technology (DIT), did not coordinate efforts to ensure that DHS established and implemented comprehensive, up-to-date, and tested backup and disaster recovery plans for several of its critical automated information systems. As a result, DHS could not ensure uninterrupted business services and the preservation of critical financial and client data in the event of a disaster or other disruption.

* *See glossary at end of report for definition.*

Executive Order No. 2001-3 transferred the responsibility for all information technology services to DIT. DIT assists DHS in maintaining its automated information systems, including disaster recovery and business resumption services. DHS, as the business owner, retains responsibility for data processed through its automated systems, including those developed in conjunction with DIT. Our review of the backup and disaster recovery processes of selected DHS automated information systems used to support DHS's financial schedules and/or statement assertions and its compliance with federal laws and regulations disclosed:

a. DHS and DIT did not have detailed, documented, up-to-date, and tested backup and disaster recovery plans for 7 systems housed in the client/server environment and for 8 systems housed in the mainframe environment. Although DHS had documented plans for 2 of the 7 systems housed in the client/server environment and 6 of the 8 systems housed in the mainframe environment, those plans were not periodically updated or tested to ensure that the plans were sound.

b. DHS and DIT did not store backup and recovery tapes for two systems at an off-site facility as required by DMB.

   DMB Administrative Guide procedure 1310.02 states that off-site storage for backup and recovery tapes must be a minimum of five miles from the main processing site.

c. DHS did not ensure that business resumption plans for its local offices addressed interruptions in services resulting from disasters at the computer processing site that affected availability of computer services.

d. DHS and DIT did not ensure that recovery tests were conducted to confirm DHS's ability to resume operations.

Secure Michigan Initiative, a report issued by the DIT Office of Security and Disaster Recovery, recommends the establishment of documented and tested backup and disaster recovery plans to ensure that a department can recover and continue its operations in the event of a disaster. Also, the report indicates that one of the highest security risks in the State relates to a lack of formal disaster

recovery, business resumption, and business continuity planning and implementation.

RECOMMENDATION

We recommend that DHS, in conjunction with DIT, coordinate efforts to ensure that DHS establishes and implements comprehensive, up-to-date, and tested backup and disaster recovery plans for its critical automated information systems.

FINDING 430503

3. Children's Trust Fund (CTF)

DHS's internal control may not be effective in ensuring that CTF assets are safeguarded, transactions are properly recorded, and errors are prevented or detected in a timely manner. As a result, the CTF is at risk for the misappropriation of assets and improper financial reporting.

Our review of 40 CTF revenue transactions and 52 CTF expenditure transactions disclosed:

a. DHS did not maintain proper internal control over CTF inventory items. CTF fund-raising activities included selling items such as pins, T-shirts, sweatshirts, books, videos, and mugs. The sales of these items totaled $96,515 and $74,592 in fiscal years 2003-04 and 2002-03, respectively. DHS did not maintain documentation of a reconciliation of the number and type of items taken from inventory, number of items sold, revenue collected, and number of items returned to inventory.

b. DHS did not properly approve 7 (13%) of 52 expenditure transactions.

c. DHS did not maintain supporting documentation for 4 (8%) of 52 expenditure transactions.

In addition to basic internal control principles, DHS is required by Section 18.1485 of the *Michigan Compiled Laws* to maintain an internal accounting and administrative control system of authorization and recordkeeping procedures to control assets and expenditures.

Also, Chapter 12 of DMB's FMG requires that DHS establish and maintain an inventory control program that includes limited access to inventory storage area, use of requisition forms to release inventory, and approval of all adjustments to inventory records.

RECOMMENDATION

We recommend that DHS improve its internal control to help ensure that CTF assets are safeguarded, transactions are properly recorded, and errors are prevented or detected in a timely manner.

The status of the findings related to the financial schedules and financial statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs* Related to Federal Awards

FINDING 430504

4. Internal Control Over Federal Programs

DHS's internal control was not effective in ensuring federal program compliance and accurate and timely financial and program reporting. As a result, DHS has been subjected to federal sanctions and disallowances in the past and is at risk of future significant federal sanctions and disallowances.

As described in the succeeding findings of this report, we identified known questioned costs of approximately $34 million and known and likely questioned costs totaling $651 million. DHS expended a total of $5.5 billion in federal awards during the two-year period ended September 30, 2004.

Internal control is a process designed to provide reasonable assurance regarding financial reporting, effectiveness* and efficiency* of operations, and compliance with laws and regulations.

* *See glossary at end of report for definition.*

Properly designed internal control supports effective methods to achieve federal program goals; increases efficiency by reducing the total resources needed to ensure that assets are safeguarded; and helps to ensure that sanctions, disallowances, and/or future reductions of federal awards are avoided.

Our audit of DHS's 16 major federal programs and its SEFA for the two-year period ended September 30, 2004 disclosed:

a. DHS did not provide the oversight necessary to ensure that its internal control over various organizational units of its major federal programs was properly designed and effective. As a result, DHS operated 8 of its 16 major federal programs in material noncompliance* with federal laws, regulations, contracts, and grant agreements. For example, during our audit, we identified federal programs in which the individuals responsible for the program were not sufficiently aware of the program operations, significant compliance requirements, or the controls designed to ensure compliance with the federal program compliance requirements. Our audit resulted in 7 adverse and 1 qualified opinions for the 16 major programs (see Findings 8, 9, and 11 through 16).

b. DHS did not provide the oversight necessary to ensure that internal control weaknesses and resulting noncompliance of its federal programs disclosed in prior Single Audits were corrected effectively and in a timely manner. As a result, this audit report contains 19 (58%) of 33 recommendations related to federal awards repeated from our prior report for the two-year period ended September 30, 2002, many of which were also reported in earlier DHS Single Audits (see Findings 7 through 9 and 11 through 17, 19, and 22).

Sections 18.1483 - 18.1485 of the *Michigan Compiled Laws* and Title 45, Parts 74 and 92 of the *Code of Federal Regulations (CFR)* state that DHS management is responsible for its internal control. These responsibilities include implementing a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with applicable laws and

* *See glossary at end of report for definition.*

regulations. Also, DHS management is to ensure that a system is functioning as described and is modified as appropriate for changes in the condition of the system.

RECOMMENDATION

We recommend that DHS implement effective internal control to ensure federal program compliance and accurate and timely financial and program reporting.

FINDING 430505

5. Food Stamp Cluster, *CFDA* 10.551 and 10.561

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 22646 99 LOC 22646 01 8MI400067 2MI400100 2MI420122 EBT-02 EBT-03 EBT-04	Award Period: 10/01/1998 - 09/30/1999 10/01/2000 - 09/30/2001 09/27/2001 - 10/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $4,999,543

DHS's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, cash management, procurement and suspension and debarment, reporting, and special tests and provisions.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in Food Stamp Cluster awards.

Federal expenditures for the Food Stamp Cluster totaled approximately $1.9 billion for the two-year period ended September 30, 2004. We questioned costs totaling $4,999,543.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

Our review disclosed:

(1) As discussed in the Procurement and Suspension and Debarment section (item c.) of this finding, DHS, in coordination with DMB, did not maintain contract documentation as required for a Food Stamp Cluster contract. We questioned the costs in item c. of this finding.

(2) DHS allocated Food Stamp Cluster training costs to an incorrect Public Assistance Cost Allocation Plan (PACAP) cost pool. We questioned costs totaling $478 (see Finding 18, item a., and related recommendation).

b. Cash Management

DHS did not submit complete and accurate information to the Michigan Department of Treasury in its annual federal Cash Management Improvement Act (CMIA) report (see Finding 21, item b.(2), and related recommendation).

c. Procurement and Suspension and Debarment

DHS, in coordination with DMB, did not maintain supporting documentation of required signed lobbying certification and contractor suspension or debarment certification for a Food Stamp Cluster contract. We questioned costs totaling $4,999,065 (see Finding 17, items c. and d., and related recommendation).

d. Reporting

DHS did not ensure the reliability of significant information it used in reports for the Food and Nutrition Service (FNS), U.S. Department of Agriculture. Our review of DHS reporting procedures disclosed:

(1) DHS did not ensure that 2 (50%) of 4 local fiscal offices reconciled their recoupment activity report (GH-280) to source documents or retained the reconciliation information. DHS used the GH-280 to prepare its quarterly status of claims against households report (FNS-209). As a result, DHS did not verify the accuracy of amounts presented on the FNS-209.

Federal regulations 7 *CFR* 273.18 (a) and (m) require DHS to create and maintain a system of records for monitoring claims against households that received more benefits than they were entitled to receive. Also, federal regulation requires DHS to reconcile summary balances reported to individual supporting records on a quarterly basis. DHS procedures require local fiscal offices to reconcile the GH-280 on a monthly basis and maintain the reconciliations for three years or one year subsequent to a federal audit.

(2) DHS did not reconcile amounts contained in its food stamp summary report (FS-301) to source documents. DHS used the FS-301 to prepare the issuance reconciliation report (FNS-46). As a result, DHS did not verify the accuracy of amounts presented on the FNS-46.

Federal regulation 7 *CFR* 273.18 requires DHS to reconcile summary balances reported to individual supporting records on a quarterly basis.

e. Special Tests and Provisions

DHS's internal control did not ensure that it issued Food Stamp Cluster benefits to only eligible grantees. Our review disclosed that DHS did not account for all issuances of electronic benefits transfer (EBT) bridge cards* issued by its local offices through a reconciliation process as required. Failure to reconcile the local office issuance logs with the EBT contractor report and failure to obtain grantee signatures for EBT bridge cards increase the risk that DHS could issue EBT bridge cards to someone other than the intended grantee.

DHS did not have a process in place to reconcile local office EBT bridge card issuance logs with the report of EBT cards authorized by the EBT contractor. We noted that 7 (88%) of 8 local offices reviewed had discrepancies between the number of EBT bridge cards reported as issued on the local office issuance logs and the number reported as authorized by the EBT contractor.

In addition, DHS did not ensure that it obtained grantee signatures indicating receipt of the EBT bridge card. We noted that 2 (25%) of 8 local offices reviewed did not have all required grantee signatures for EBT bridge cards

* *See glossary at end of report for definition.*

that they issued. DHS procedures state that the local office must obtain the signature of the EBT bridge card grantee and the grantee's EBT card number.

Federal regulation 7 *CFR* 274.4 requires that DHS shall account for all issuances through a reconciliation process. Also, federal regulation 7 *CFR* 274.11 requires DHS to maintain issuance, inventory, reconciliation, and other accountability records for a period of three years.

RECOMMENDATION

We recommend that DHS improve its internal control over the Food Stamp Cluster to ensure its compliance with federal laws and regulations regarding reporting and special tests and provisions.

FINDING 430506

6. Juvenile Accountability Incentive Block Grants (JAIBG), *CFDA* 16.523

U.S. Department of Justice	*CFDA* 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006
	Questioned Costs: $41,595

DHS's internal control over the JAIBG Program did not ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in JAIBG Program awards.

Federal expenditures for the JAIBG Program totaled approximately $11.8 million for the two-year period ended September 30, 2004. We questioned costs totaling $41,595.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

DHS did not comply with JAIBG Program matching requirements for one grant award. As a result, we questioned costs in the amount of $41,595.

Our review of DHS's JAIBG Program final federal financial report issued in fiscal year 2003 for its 2000 federal fiscal year grant award disclosed that DHS reported the State's matched portion as $724,440. However, DHS was required to match a minimum of $766,035 for the period.

The U.S. Office of Juvenile Justice and Delinquency Prevention requires DHS to contribute a cash match of 10% of the total JAIBG Program costs as federal funds may not exceed 90% of total program costs.

b. Subrecipient Monitoring

DHS did not provide subrecipients with timely information relating to the *Catalog of Federal Domestic Assistance* (*CFDA*) number, the name of the federal awarding agency, and the related federal laws and regulations for JAIBG subrecipient contracts reviewed (see Finding 20, item c., and related recommendation).

RECOMMENDATION

We recommend that DHS improve its internal control over the JAIBG Program to ensure its compliance with federal laws and regulations regarding matching, level of effort, and earmarking.

FINDING 430507

7. Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), *CFDA* 16.540

U.S Department of Justice	*CFDA* 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
	Questioned Costs $5,641

DHS's internal control over the JJDP Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of JJDP Program awards.

Federal expenditures for the JJDP Program totaled approximately $4.3 million for the two-year period ended September 30, 2004. We identified known questioned costs of $5,641 and known and likely questioned costs totaling $136,408.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DHS did not ensure that 3 (12%) of 25 JJDP Program expenditures were properly authorized. As a result, we questioned costs in the amount of $5,641.

For 2 of these expenditures, DHS did not authorize the expenditures or maintain quarterly certification memorandums of its attestation. For the other expenditure, the JJDP Program authorized the expenditure one year after the payment occurred.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that costs charged to a federal award be properly authorized.

We reported this finding in our prior audit. DHS responded that it agreed with the recommendation and would correct the deficiency through staff training, strengthened internal controls, and performance of quarterly audits of all program expenditures.

b. Subrecipient Monitoring

DHS did not have a complete system to identify JJDP subrecipients and did not provide subrecipients with timely information relating to the *CFDA* number, the name of the federal awarding agency, and the related federal laws and regulations for a JJDP subrecipient contract reviewed (see Finding 20, items a. and c., and related recommendation).

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND DHS IMPROVE ITS INTERNAL CONTROL OVER THE JJDP PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES.

FINDING 430508

8. Violence Against Women Formula Grants (VAW), *CFDA* 16.588

U.S. Department of Justice	*CFDA* 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
	Questioned Costs: $3,901,922

DHS's internal control over the VAW Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; procurement and suspension and debarment; reporting; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding matching, level of effort, and earmarking. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the VAW Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in VAW Program awards.

Federal expenditures for the VAW Program totaled approximately $7.6 million for the two-year period ended September 30, 2004. We questioned costs totaling $3,901,922.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

As discussed in the Procurement and Suspension and Debarment section (item c.) of this finding, DHS did not maintain contract documentation as required for a VAW Program contract. We questioned the costs in item c. of this finding.

b. Matching, Level of Effort, and Earmarking

DHS needs to improve its internal control over the VAW Program to help ensure compliance with federal matching and earmarking requirements. Our review disclosed:

(1) DHS did not record earmarking allocation information by grant award period. Therefore, DHS could not demonstrate that it complied with federal earmarking requirements for its 2001 and 2002 VAW Program grant awards. The U.S. Department of Justice awarded DHS a total of $7,523,000 with these awards. DHS charged $3,901,922 to these grant awards during our audit period that it was required to allocate to specific earmarks. As a result, we questioned costs totaling $3,901,922.

We noted the same condition in our prior audit. DHS indicated that it implemented corrective action for grant award periods beginning April 1, 2003. However, we could not verify the corrective action because VAW Program grant awards for 2003 and later periods were not closed during our audit period.

The Office of Justice Programs, U.S. Department of Justice, required DHS to allocate a minimum of 25% of the 2001 and 2002 VAW Program grant awards to prosecution and law enforcement, 30% to victims' services, and a minimum of 5% to courts.

(2) DHS did not track match obligations for all its VAW Program subrecipients required to match a portion of their grant awards and did not include the amounts matched by these subrecipients in their federal financial reports.

Our review noted that DHS's process to track subrecipient match obligations did not include three governmental subrecipients. Thus, DHS did not include any match obligations that did occur by these three subrecipients in its final federal financial reports submitted for two VAW Program grant awards. However, our audit of DHS's required match determined that DHS did meet the necessary match obligation for these grant awards because it and other VAW Program subrecipients exceeded the required match for VAW Program expenditures they incurred. VAW Program expenditures incurred by these three governmental subrecipients totaled approximately $138,000 for the period October 1, 2002 through September 30, 2004. These costs were questioned in the Matching, Level of Effort, and Earmarking section (item b.(1)) of this finding.

Federal regulation 28 *CFR* 90.17 requires governmental subrecipients to match 25% of their VAW Program grant awards.

c. Procurement and Suspension and Debarment

DHS did not obtain supporting documentation of required State Administrative Board approval or maintain supporting documentation of signed lobbying certification and contractor suspension or debarment certification for a VAW Program contract. Questioned costs totaling $12,313 were questioned in the Matching, Level of Effort, and Earmarking section (item b.(1)) of this finding (see Finding 17; items b., c., and d., and related recommendation).

d. Reporting

DHS did not submit accurate final federal financial reports for its 2001 and 2002 VAW Program grant awards. DHS incorrectly reported the State's match as $186,670 rather than $255,965 on the 2001 VAW Program grant award final report. On its 2002 VAW Program grant award final report, DHS incorrectly reported the State's match as $78,608 rather than $49,723.

e. Subrecipient Monitoring

DHS needs to improve its internal control over its monitoring of VAW Program subrecipients:

(1) DHS did not have a complete system to identify VAW Program subrecipients and award payments issued to its VAW Program subrecipients (see Finding 20, item a., and related recommendation).

(2) As discussed in the Matching, Level of Effort, and Earmarking section (item b.(2)) of this finding, DHS did not monitor subrecipients in accordance with OMB Circular A-133. DHS collected information on match from its subrecipients as part of a quarterly billing process. However, DHS did not record this information so that it could monitor matching requirements throughout each grant.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE VAW PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING MATCHING, LEVEL OF EFFORT, AND EARMARKING; REPORTING; AND SUBRECIPIENT MONITORING.

We also recommend that DHS improve its internal control over the VAW Program to ensure its compliance with federal laws and regulations regarding allowable costs/cost principles.

FINDING 430509

9. Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 02 01 MI TANF G 03 01 MI TANF G 04 01 MI TANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $2,570,876

DHS's internal control over the TANF Program did not ensure compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, subrecipient monitoring, and special tests and provisions. Our review disclosed material weaknesses in internal control and material noncompliance related to activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions regarding child support noncooperation and penalties for refusal to work compliance requirements. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the TANF Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TANF Program awards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over TANF Program allowable costs/cost principles, eligibility, and special tests and provisions. We also disclosed reportable conditions related to activities allowed or unallowed. We determined that DHS did not fully implement sufficient and timely corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions. This is evidenced by the noncompliance reported in items a., b., c., and f. of this finding.

Federal expenditures for the TANF Program totaled approximately $1.5 billion for the two-year period ended September 30, 2004. We identified known questioned costs of $2,570,876 and known and likely questioned costs totaling $346,505,141.

Our exceptions, by compliance area, are as follows:

a. <u>Activities Allowed or Unallowed</u>

DHS did not ensure that TANF Program expenditures incurred were for activities allowed according to applicable federal laws and regulations. As a result, we questioned costs totaling $3,667, of which $3,565 is questioned in the Allowable Costs/Cost Principles section (item b.(1)) of this finding and $102 is questioned in the Eligibility section (item c.) of this finding.

As discussed in item b.(1) of this finding (subitems (a), (b), (c), (d), and (e)), DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 26 (23%) of 114 expenditures.

Federal regulation 45 *CFR* 263 states that funds may be used in any manner reasonably calculated to achieve the purposes of the program. The first two of these purposes are to provide assistance to needy families so that children may be cared for in their own homes or the homes of relatives and to end the dependence of needy families on government benefits by promoting job preparation, work, and marriage. DHS procedures required designated forms to be completed and authorized to help ensure that assistance was provided only to needy families.

b. Allowable Costs/Cost Principles

DHS did not ensure that TANF Program expenditures met the allowable cost principles of OMB Circular A-87. As a result, we questioned costs totaling $2,559,793, of which $2,517,040 is questioned in the Procurement and Suspension and Debarment section (item d.) of this finding. Our review disclosed:

(1) DHS did not maintain case file documentation to support client eligibility, authorization for client services, or the amount of the assistance provided for 39 (34%) of 114 expenditures. Of the 114 expenditures, we reviewed case file documentation for 87 cases. We questioned costs of $4,495:

(a) DHS did not maintain any case file documentation to support the recipients' need and eligibility for assistance in 8 cases. DHS provided cash assistance to 4 families and provided TANF Program funded day-care assistance to the remaining 4 families.

(b) DHS did not maintain documentation of the recipients' assistance application (FIA-1171) and/or the eligibility determination and certification form (FIA-1171-C) in 8 cases.

(c) DHS did not authorize the FIA-1171-C to indicate that the families were eligible to receive cash assistance in 3 cases.

(d) DHS did not maintain support of the Local Office Automation II (LOA2) budget printout in 4 cases. DHS uses LOA2 to determine the families' eligibility and amount of TANF assistance.

(e) DHS did not provide requested case file documentation that supported the payment period reviewed in 5 cases.

(f) DHS did not maintain documentation to support the payment amount in 5 cases.

(g) DHS did not maintain documentation of the verification of employment and income in 6 cases.

(2) DHS did not maintain adequate documentation to support 4 (36%) of 11 TANF Program funded procurement card expenditures. We questioned costs of $225.

(3) As discussed in the Procurement and Suspension and Debarment section (item d.) of this finding, DHS, in coordination with DMB, did not maintain contract documentation as required. We questioned the costs in item d. of this finding.

(4) DHS allocated TANF Program training costs to an incorrect PACAP cost pool. We identified negative questioned costs of $2,408 (see Finding 18, item a., and related recommendation).

(5) DHS did not ensure that payroll costs charged to the TANF Program were properly documented in compliance with federal requirements. We questioned costs of $40,441 (see Finding 19, item a., and related recommendation).

OMB Circular A-87 requires costs charged to federal programs to be adequately documented and authorized. Also, DHS policies and procedures require a client-signed FIA-1171 and documentation of eligibility determination on the FIA-1171-C for all clients at initial application for benefits and at established re-determination periods. DHS policies also require case records to contain all forms, documents, and other evidence relevant to the client's current and past eligibility. Because DHS did not maintain required case file

documentation, it could not ensure or demonstrate compliance with federal requirements related to activities allowed or unallowed, allowable costs/cost principles, and eligibility for the TANF Program.

We noted this condition in our prior three audits. DHS responded that corrective action would include revising the FIA-1171 to fulfill documentation requirements.

c. Eligibility

DHS did not ensure that assistance was provided only to eligible recipients in accordance with federal laws and regulations.

As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding (subitems (a), (b), (c), (d), and (e)), DHS did not maintain documentation to support the recipients' need and eligibility for TANF Program assistance for 26 (23%) of 114 expenditures. We questioned costs totaling $3,667, of which $3,565 is questioned in item b.(1) of this finding.

DHS could not ensure or demonstrate compliance with federal laws and regulations related to a family's eligibility for assistance benefits because it did not maintain documentation, such as the FIA-1171, the FIA-1171-C, and the LOA2 budget.

Federal regulation 45 *CFR* 260.20 requires a family to be needy in order to be eligible for TANF assistance. To determine if a family is needy, DHS's procedures require designated forms to be completed and approved and additional case file documentation to be maintained as necessary to help ensure that TANF Program federal funds will be used only for eligible families and purposes.

We reported this same condition in our prior three audits. DHS responded that a desk-aid for staff would be developed to emphasize the importance of documenting eligibility factors.

d. Procurement and Suspension and Debarment

DHS, in coordination with DMB, did not maintain supporting documentation of required signed lobbying certification and contractor suspension or debarment

certification for a TANF Program contract. We questioned costs of $2,517,040 (see Finding 17, items c. and d., and related recommendation).

e. Subrecipient Monitoring

Our review disclosed:

(1) DHS's internal control did not ensure that some entities that received TANF Program awards were properly classified as subrecipients, were provided timely federal information, and were advised of requirements imposed on them by federal laws and regulations:

(a) We reviewed 5 TANF Program contract payment transactions and found that DHS incorrectly classified 1 (20%) subrecipient as a vendor. Also, DHS informed us that it had erroneously classified other Before and After School Pilot Program subrecipients as vendors.

As a result of the misclassification, DHS did not provide the subrecipient(s) with required federal award information and advise them of requirements imposed on them by federal laws and regulations. The improper classification also caused an error in DHS's SEFA for the period October 1, 2002 through September 30, 2004 (see Finding 1, item c.).

(b) DHS did not provide some TANF Program subrecipients with timely information relating to the CFDA number, the name of the federal awarding agency, and the related federal laws and regulations (see Finding 20, item c., and related recommendation).

Public Law 104-156, Section 7502(f)(2), and OMB Circular A-133, Section 400, require DHS to provide its subrecipients with the federal program name, including the *CFDA* title and number and the name of the federal awarding agency, and to advise subrecipients of requirements imposed on them by federal laws, regulations, contracts, and grant agreements governing the use of the federal awards it makes.

(2) DHS did not always issue management decisions on TANF Program subrecipient Single Audit findings within six months of DHS's receipt of

the reports as required (see Finding 20, item b., and related recommendation).

f. Special Tests and Provisions

DHS did not comply with TANF Program federal laws and regulations regarding special tests and provisions requirements for child support noncooperation and penalty for refusal to work. As a result, we questioned costs totaling $10,981. Our review disclosed:

(1) DHS did not always sanction TANF Program families who did not cooperate with establishing paternity and child support orders as required by federal law and DHS's TANF State Plan.

We reviewed 60 case files of TANF Program families identified as not cooperating with paternity and child support order establishment procedures and noted that DHS did not appropriately sanction the family in 13 (22%) of the 60 cases.

Title 42, Section 608(a)(2) of the *United States Code* (*USC*) states that DHS must deduct an amount equal to not less than 25% from the TANF Program assistance that would otherwise be provided to the family of the individual and may deny the family any TANF Program assistance. DHS's TANF State Plan states that failure to cooperate in establishing paternity and pursuing child support for dependent children will result in TANF Program ineligibility.

We reported this condition in our prior three audits. DHS responded that integrated systems are needed to reduce worker error that is inherent in having to access multiple systems to verify data.

(2) DHS did not always terminate assistance for TANF recipients who refuse to engage in work and are not subject to exceptions established by DHS.

We reviewed 60 case files of TANF families in which a recipient was identified as not cooperating in work programs. In 8 (13%) of the 60 case files, DHS did not provide evidence that assistance had been terminated as required by federal regulation.

Federal regulation 45 *CFR* 261.14 requires DHS to reduce or terminate assistance of those recipients who refuse to engage in work and are not subject to exceptions established by DHS. DHS's TANF State Plan states that if a person fails at application to participate in employment-related activities without good cause, the family is ineligible for assistance, and if a recipient fails to participate in employment-related activities without good cause, the family loses its eligibility for assistance for a minimum of one calendar month.

We reported this same condition in our prior two audits. DHS responded that it automated Work First referrals on its systems in September 2003 to eliminate missed referrals and to automatically store referral dates. DHS also responded that it planned to interface and integrate DHS and the Department of Labor and Economic Growth systems to eliminate instances in which noncompliance was not acted upon.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE TANF PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND SPECIAL TESTS AND PROVISIONS.

FOR THE FOURTH CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING TANF ELIGIBILITY AND THE PROPRIETY OF TANF EXPENDITURES.

IN ADDITION, FOR THE FOURTH CONSECUTIVE AUDIT AND THE THIRD CONSECUTIVE AUDIT, RESPECTIVELY, WE RECOMMEND THAT DHS COMPLY WITH ESTABLISHED INTERNAL CONTROL TO SANCTION PUBLIC ASSISTANCE RECIPIENTS WHO DO NOT COOPERATE IN ESTABLISHING PATERNITY AND CHILD SUPPORT ORDERS OR WHO DO NOT MEET EMPLOYMENT-RELATED ACTIVITY REQUIREMENTS.

We further recommend that DHS improve its internal control over the TANF Program to ensure its compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 430510

10. Child Support Enforcement (CSE), *CFDA* 93.563

U.S Department of Health and Human Services	*CFDA* 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

DHS's internal control over the CSE Program did not ensure its compliance with federal laws and regulations regarding subrecipient monitoring and special tests and provisions.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in CSE Program awards.

Federal expenditures for the CSE Program totaled approximately $428.8 million for the two-year period ended September 30, 2004.

Our exceptions, by compliance area, are as follows:

a. Subrecipient Monitoring
DHS did not provide subrecipients with timely information relating to the *CFDA* number, the name of the federal awarding agency, and the related federal laws and regulations for fiscal year 2002-03 subrecipient contracts reviewed (see Finding 20, item c., and related recommendation).

b. Special Tests and Provisions
DHS's process of responding to interstate child support cases did not ensure compliance with federal regulations.

Federal laws 42 *USC* 654.24 and 654a require each state to have a statewide automated child support enforcement system, including an automated interstate information comparison process that provides for the exchange of information with other agencies of the state, agencies of other states, and interstate information networks to carry out the operations and objectives of the CSE Program.

DHS used two different automated systems, the Child Support Enforcement System (CSES) and the Michigan Child Support Enforcement System (MiCSES), to process child support cases received from other states (interstate responding cases) during our audit period. We reviewed 60 child support cases identified by DHS as interstate responding cases. We found that DHS could not provide documentation to support its compliance with federal regulations for interstate responding cases, primarily for those cases that DHS processed using CSES as follows (not all cases required the specific action discussed during our audit period):

(1) For 17 (29%) of 59 cases, DHS did not take action on the cases within 20 days of receipt of a referral. DHS processed 15 of the 17 cases using CSES.

    Federal regulation 45 *CFR* 303.7(c) requires that DHS open a case and request additional information if necessary or refer the case for further location attempts within 20 calendar days of referral.

(2) For 17 (29%) of 58 cases, DHS did not search all available systems within 75 days to locate the noncustodial parent. DHS processed 15 of the 17 cases using CSES.

    Federal regulation 45 *CFR* 303.7(c)(4)(i) requires that, within 75 calendar days of receipt of an interstate request, the agency must provide location services.

(3) For 16 (36%) of 44 cases, DHS did not perform quarterly location searches or repeat location attempts whenever a lead was obtained. DHS processed 14 of the 16 cases using CSES.

Federal regulation 45 *CFR* 303.7(c)(4)(i) requires DHS to repeat location attempts either quarterly or immediately upon receipt of new information that may aid in locating the noncustodial parent, whichever occurs sooner.

We reported similar conditions in our prior audit. DHS did not know if it complied with federal regulations for responding to interstate cases because the interstate portion of CSES that was implemented did not track responding cases. In September 2003, DHS completed its conversion from the non-Statewide CSES to the Statewide MiCSES. Our audit tests indicated that MiCSES was significantly more effective than CSES in processing interstate case information to support DHS's compliance with federal regulations during our audit period.

RECOMMENDATION

We recommend that DHS continue to improve its internal control over the CSE Program to ensure its compliance with federal laws and regulations regarding special tests and provisions.

FINDING 430511

11. Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

U.S. Department of Health and Human Services	*CFDA* 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 01 AA MI 5110 G 02 AA MI 5110 G 03 AA MI 5100 G 03 AA MI 5110 G 04 AA MI 5100	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005
	Questioned Costs: $8,790,122

DHS's internal control over REAP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, period of availability of federal funds, procurement and suspension and debarment, reporting, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, procurement and suspension and debarment, and

subrecipient monitoring. As a result, we issued an adverse opinion on compliance with federal laws and regulations for REAP.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in REAP awards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over REAP activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, and subrecipient monitoring. We determined that DHS did not implement sufficient corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, and subrecipient monitoring. This is evidenced by the noncompliance reported in items a. through c., e., and g. of this finding.

Federal expenditures for REAP totaled approximately $16.3 million for the two-year period ended September 30, 2004. We identified known questioned costs of $8,790,122 and known and likely questioned costs totaling $9,062,277.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to REAP federal laws and regulations. As a result, we questioned costs totaling $687,510. Our review disclosed:

(1) DHS inappropriately charged its Michigan.gov intranet portal expenditures of $276,519 to REAP administrative costs. DHS informed us that this error occurred when DHS transposed a coding block within the accounting system.

Federal regulation 45 *CFR* 400.13(c) allows DHS to charge REAP for reasonable and necessary administrative costs incurred for the overall management of REAP. Michigan.gov intranet portal charges are not necessary for the management of REAP.

(2) DHS did not charge Refugee Social Services (RSS) expenditures to the appropriate REAP grant. DHS charged all RSS expenditures we reviewed that were for vehicle purchases and repairs to the Cash, Medical, and Administration (CMA) grant and coded the expenditures as Refugee Cash Assistance (RCA) because of DHS procedures. As a result, we determined that DHS charged $410,991 to the CMA grant instead of the RSS grant as required.

DHS procedures require staff to use only RCA funds relating to the CMA grant for RSS expenditures instead of the RSS grant.

REAP's CMA grants are awarded to states to reimburse costs of providing RCA. RCA is monthly cash benefits for refugees who do not meet the eligibility requirements of the TANF or Supplemental Security Income (SSI) Programs. REAP's RSS grants are awarded to states to help refugees become economically self-sufficient primarily through the provision of employment services. Federal regulations 45 *CFR* 400.154 and 45 *CFR* 400.155 allow states to use RSS grants to provide employment services, which include transportation related services necessary for participation in an employability service or for the acceptance or retention of employment.

(3) As discussed in the Allowable Costs/Cost Principles section (items b.(2) and (4)) of this finding, DHS did not appropriately document refugee eligibility in 5 (6%) of 82 REAP expenditures as required by federal regulations 45 *CFR* 400.150, 45 *CFR* 400.152, and 45 *CFR* 400.28. As a result, DHS could not support that the expenditures were for allowable activities. We questioned $2,623 of these costs in item a.(2) of this finding and $72,329 in items b.(2) and b.(4) of this finding.

(4) DHS paid for nonscheduled services and a holiday allowance in 8 (15%) of 52 Unaccompanied Refugee Minors Program (UMP) expenditures that were not allowed per federal regulation 45 *CFR* 400.112 and DHS policies. We questioned these costs of $66,978 in the Procurement and Suspension and Debarment section (item e.) of this finding.

Federal regulation 45 *CFR* 400.112 requires DHS to provide refugee child welfare services according to DHS's child welfare standards, practices, and procedures.

b. Allowable Costs/Cost Principles

DHS did not ensure that REAP expenditures met the allowable cost principles of OMB Circular A-87. As a result, we questioned costs totaling $72,324. Our review disclosed:

(1) As discussed in the Activities Allowed or Unallowed section (item a.(1)) of this finding, DHS inappropriately charged its Michigan.gov intranet portal expenditures to REAP administrative costs. As a result, DHS could not support that the expenditures were necessary and reasonable for the proper performance of assisting refugees. We questioned these costs in item a.(1) of this finding.

(2) DHS did not maintain documentation to support refugees' eligibility in 4 (25%) of 16 RSS and RCA expenditures. Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.150, and 45 *CFR* 400.152 require refugees to meet specific eligibility requirements to be eligible for REAP benefits. For 3 of the 4 expenditures, DHS did not maintain any case file documentation. For 2 of these cases, DHS indicated that the documentation was destroyed based on its records retention procedure for REAP cases. However, federal regulation 45 *CFR* 400.28 requires that DHS provide for the maintenance of operational records as are necessary for federal monitoring of the State's REAP. We questioned costs of $2,726, of which $2,623 of these costs were questioned in item a.(2) of this finding.

(3) DHS did not properly authorize 3 (6%) of 52 UMP expenditures. We questioned these costs of $349,369 in the Procurement and Suspension and Debarment section (item e.) of this finding.

(4) DHS did not maintain documentation that identified eligible refugees and allowable services for pharmaceutical charges in 1 (7%) of 14 Refugee Medical Assistance (RMA) expenditures. We questioned costs of $72,226.

Federal regulation 45 *CFR* 400.28 requires DHS to maintain documentation of services and assistance provided, including identification of individuals receiving those services.

(5) As discussed in the Procurement and Suspension and Debarment section (item e.) of this finding, DHS did not enter into contracts with 2 REAP subrecipients for the provision of UMP services as required by State and federal laws and regulations. We questioned the costs in item e. of this finding.

(6) DHS allocated REAP training costs to an incorrect PACAP cost pool. We identified negative questioned costs of $5 (see Finding 18, item a., and related recommendation).

OMB Circular A-87 requires that costs charged to federal awards be necessary and reasonable for the proper performance of REAP, be adequately supported, and be properly authorized. Also, costs must be allocable according to DHS's federally approved PACAP.

We reported similar conditions in our prior audits. DHS responded that it plans to correct the conditions through increased efforts in monitoring expenditures and the implementation of a case file review process.

c. Eligibility

DHS did not ensure that REAP benefits were issued only to refugees eligible for services according to federal laws and regulations.

As discussed in the Allowable Costs/Cost Principles section (item b.(2)) of this finding, DHS did not document eligibility information for 4 (25%) of 16 RSS and RCA expenditures as required by federal regulations. As a result, DHS could not provide support that the expenditures were paid to refugees eligible for REAP's RSS or CMA grants. We questioned costs of $2,726 in items a.(2) and b.(2) of this finding.

Federal regulations 45 *CFR* 400.53, 45 *CFR* 400.150, and 45 *CFR* 400.152 require refugees to meet immigration status and identification requirements to be eligible for RSS and CMA grants.

We reported the same condition in our prior two audits. DHS responded that it planned to correct the condition through the implementation of a case file review process.

d. Period of Availability of Federal Funds

DHS did not ensure that UMP expenditures were reported and reimbursed within the correct CMA federal fiscal year that the grant was awarded to DHS for 11 (17%) of 64 UMP expenditures. We questioned costs of $236,661 in the Procurement and Suspension and Debarment section (item e.) of this finding.

DHS claimed and received reimbursement for prior year UMP services from its CMA grants awarded in the following federal fiscal year.

Federal regulation 45 *CFR* 400.210(a) does not allow DHS to receive reimbursement for prior year services from the grant awarded in the following federal fiscal year with respect to CMA funds used for UMP services.

e. Procurement and Suspension and Debarment

DHS did not enter into written contracts with 2 REAP subrecipients for the provision of UMP services as required by State and federal laws and regulations. Also, DHS, in coordination with DMB, did not maintain supporting documentation of signed lobbying certification and contractor suspension or debarment certification for a REAP related contract. We questioned costs totaling $8,030,288 (see Finding 17, items a., c., and d. and related recommendation).

f. Reporting

DHS did not ensure that its quarterly performance reports (ORR-6 reports) were accurate.

Federal regulation 45 *CFR* 400.28 requires DHS to maintain and submit statistical information required by the Office of Refugee Resettlement (ORR), U.S. Department of Health and Human Services. The terms and conditions of DHS's REAP grant awards for fiscal years 2003-04 and 2002-03 required DHS to submit an ORR-6 report each quarter and an annual state of origin report (ORR-11 report) each year to ORR.

Our review disclosed that, in the ORR-6 second quarter report for fiscal year 2002-03, DHS overstated the number of health screenings provided by 19 and the total health screening costs by $8,075; understated total caseload services by 91 and 48 for males and females, respectively; and understated the number of active participants in REAP by 95 and 39 for males and females, respectively.

g. Subrecipient Monitoring

As discussed in Finding 17, DHS did not establish contracts with 2 REAP subrecipients for UMP services. Also, DHS did not ensure that all REAP expenditures it reimbursed to these subrecipients were included on the SEFA and were subject to a Single Audit. As a result, DHS did not sufficiently monitor the activities of these subrecipients to ensure that they used federal awards for authorized purposes in compliance with federal laws and regulations. Also, DHS was at risk of not informing the subrecipients of necessary award information and federal regulation requirements as required by the OMB Circular A-133. These subrecipients expended approximately $8.0 million in REAP awards during our audit period.

We obtained the Single Audits and SEFAs for the fiscal year ended December 31, 2003 of the 2 subrecipients. We found that both subrecipients did not include the total amount of UMP expenditures that DHS reimbursed them on their SEFAs. For one subrecipient, REAP was not identified as a major program when it had expended more than $300,000 in REAP awards. For the other subrecipient, REAP was identified as a major program, but the SEFA did not include all UMP expenditures in the scope of the Single Audit.

Public Law 104-156, Section 7502(f)(2), and OMB Circular A-133, Section 400(d), require DHS to identify, for the awards made to subrecipients, the *CFDA* title and number, the award name and number, and the award year and to advise the subrecipients of requirements imposed on them by federal laws, regulations, contracts, and grant agreements. Section 400(d) also requires DHS to monitor the activities of the subrecipients to ensure that they used federal awards in compliance with federal laws and regulations and to ensure that each subrecipient with expenditures of $300,000 or more has an annual Single Audit.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER REAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, REPORTING, AND SUBRECIPIENT MONITORING.

FOR THE THIRD CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING REFUGEE ELIGIBILITY AND THE PROPRIETY OF REAP EXPENDITURES.

We further recommend that DHS improve its internal control over REAP to ensure its compliance with federal laws and regulations regarding period of availability of federal funds.

FINDING 430512

12. Low-Income Home Energy Assistance, *CFDA* 93.568

U.S. Department of Health and Human Services	*CFDA* 93.568 Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $1,312,852

DHS's internal control over the Low-Income Home Energy Assistance Program (LIHEAP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, and earmarking; procurement and suspension and debarment; and reporting. Our review disclosed material weaknesses in internal control and material noncompliance regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations for LIHEAP.

Internal control that does not ensure compliance with State and federal laws and regulations could result in sanctions, disallowances, and/or future reductions in LIHEAP awards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over allowable costs/cost principles and eligibility. We determined that DHS did not implement sufficient and timely corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to allowable costs/cost principles and eligibility. We reported the resulting noncompliance in items b. and d. of this finding.

Federal expenditures for LIHEAP totaled approximately $222.6 million for the two-year period ended September 20, 2004. We identified known questioned costs of $1,312,852 and known and likely questioned costs totaling $18,379,753.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to LIHEAP federal laws and regulations. As a result, we questioned costs in the amount of $156,212. Our audit tests disclosed:

(1) DHS could not ensure that it did not fund LIHEAP administrative costs with its leveraging incentive grant award.

DHS did not have a method to track and document how it spent leveraging incentive funds and did not directly match leveraging incentive funds with specific expenditures during our audit period.

Federal regulation 45 *CFR* 96.87(j)(1) requires that leveraging incentive funds not be used for the costs of LIHEAP planning and administration. Also, federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that DHS did not use LIHEAP funds in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations.

(2) DHS did not maintain applications to document that the client requested services or made accurate disclosures in 4 (13%) of 31 State Emergency

Relief (SER) energy expenditures. We questioned the costs for these expenditures for other noncompliance in the Allowable Costs/Cost Principles section (item b.(1)) of this finding.

Federal law 42 *USC* 8624(b) allows DHS to use LIHEAP funds to intervene in energy crisis situations of low-income households. DHS policy requires a signed application to ensure that a client requested energy crisis intervention and that the client's income and emergency need disclosures complied with federal allowable activity requirements.

(3) As discussed in the Allowable Costs/Cost Principles section (item b.(1)(d)) of this finding, DHS did not maintain documentation to support an energy related emergency in 3 (10%) of 31 SER energy expenditures. We questioned the costs in item b.(1) of this finding.

Federal law 42 *USC* 8624(b)(1) allows DHS to use LIHEAP funds to intervene in household energy related emergencies.

b. Allowable Costs/Cost Principles

DHS did not ensure the propriety of LIHEAP expenditures. As a result, we questioned costs totaling $5,477. Our audit tests disclosed:

(1) DHS did not ensure that LIHEAP expenditures met the requirements of federal regulation 45 *CFR* 96.30. We questioned costs of $4,863.

Federal regulation 45 *CFR* 96.30 requires that DHS's fiscal control and accounting procedures permit the tracing of LIHEAP funds to document that DHS did not use LIHEAP funds in violation of the restrictions and prohibitions of LIHEAP laws and federal regulations. Our review disclosed:

(a) DHS did not appropriately document eligibility information for 4 (57%) of 7 SER energy expenditures for which the clients were not receiving TANF, Food Stamp Cluster benefits, or SSI as required by federal law 42 *USC* 8624(j).

(b) DHS did not maintain documentation to support that all requirements in DHS's LIHEAP State Plan were met for 15 (48%) of 31 SER energy expenditures.

(c) DHS did not properly authorize the client's energy related emergency assistance payment for 5 (16%) of 31 SER energy expenditures.

(d) DHS did not maintain documentation to support the energy related emergency and the payment amount issued for 4 (13%) of 31 SER energy expenditures.

In prior audits, we reported similar conditions regarding DHS local office staff frequently not complying with established case file internal control procedures for documenting LIHEAP eligibility and the propriety of LIHEAP federal awards expended. We disclosed instances of case files that did not contain key documents required to support payments to or on behalf of LIHEAP recipients and case files that did not include complete documentation relating to initial eligibility determinations.

(2) DHS needs to improve its internal control over the monitoring of its home heating credit (HHC) vendor to help ensure the propriety and compliance of HHC transactions. We questioned costs of $32.

OMB Circular A-133 requires DHS to ensure compliance for HHC transactions for which the vendor is responsible for program compliance or for reviewing vendor records to determine program compliance. DHS established an interagency agreement with the Department of Treasury that specified that the Department of Treasury was a DHS vendor. The interagency agreement requires the Department of Treasury to develop the HHC claim form (MI-1040CR-7), process HHC claims, determine claimant eligibility, and issue HHC to eligible claimants in accordance with Section 206.527a of the *Michigan Compiled Laws*. DHS reimbursed the Department of Treasury approximately $134.6 million for HHC transactions during the two-year period ended September 30, 2004. Our review disclosed:

(a) The Department of Treasury did not correctly calculate the HHC for 2 (10%) of 21 HHC claims. In one instance, the Department of

Treasury did not correctly calculate the claimant's income. In the other instance, the Department of Treasury did not appropriately multiply the credit by the 80% reduction factor in DHS's LIHEAP State Plan.

(b) DHS had not implemented a process to periodically reconcile HHC claim detail information to the Department of Treasury's reimbursement billings to ensure that DHS paid the correct amount for HHC claims processed and mailed by the Department of Treasury.

(c) DHS had not established a process to review the MI-1040CR-7 prior to its issuance to the public to ensure that the MI-1040CR-7 was consistent with HHC eligibility criteria established in DHS's LIHEAP State Plan. Our audit found that the MI-1040CR-7 issued to the public for tax year 2003 was not consistent with DHS's fiscal year 2003-04 LIHEAP State Plan. However, the MI-1040CR-7 issued was accurate. Upon our disclosure, DHS submitted a revised fiscal year 2003-04 LIHEAP State Plan to the U.S. Department of Health and Human Services during our fieldwork.

Review of the MI-1040CR-7 by DHS prior to its public issuance would reduce the risk that ineligible claimants receive an HHC or that eligible claimants receive an incorrect HHC.

By establishing effective monitoring of the Department of Treasury's processing of HHC payments, DHS could ensure that the Department of Treasury obtains the necessary information to verify claimants' HHC claims and pay claimants the correct amount.

In our prior audit, we reported similar conditions regarding DHS's monitoring of the Department of Treasury's HHC operations.

(3) As discussed in the Procurement and Suspension and Debarment section (item f.) of this finding, DHS did not maintain supporting documentation of required State Administrative Board approval, signed lobbying certifications, and contractor suspension or debarment certifications for LIHEAP contracts. We questioned the costs in item f. of this finding.

(4) DHS allocated LIHEAP training costs to an incorrect PACAP cost pool. We questioned costs of $582 (see Finding 18, item a., and related recommendation).

c. Cash Management

DHS did not adjust cash draw amounts for LIHEAP administrative expenditures as required by the CMIA (see Finding 21, item a.(2), and related recommendation).

d. Eligibility

As discussed in the Allowable Costs/Cost Principles section (item b.(1)(a.)) of this finding, DHS did not appropriately document client eligibility in 4 (57%) of 7 SER energy case files. As a result, DHS could not support that the expenditures paid were to clients eligible for SER energy assistance according to federal laws and DHS's LIHEAP State Plan. We questioned the costs in item b.(1) of this finding.

e. Matching, Level of Effort, and Earmarking

DHS did not ensure that it earmarked expenditures in accordance with federal regulations.

Federal regulation 45 *CFR* 96.88(a) states that any expenditure incurred for the administration of LIHEAP must be included in the statutory limitation regardless of whether DHS or a subrecipient incurred the expenditure. Federal law 42 *USC* 8624(b)(9)(A) states that the statutory limitation for planning and administrative costs is 10%. Our review disclosed:

(1) DHS did not include administrative costs incurred by subrecipients in its total planning and administrative costs, which is necessary for DHS to ensure that it did not exceed its 10% statutory limitation for planning and administrative costs. We estimated that DHS reimbursed the subrecipients for administrative costs totaling $385,320 and $692,522 in fiscal years 2003-04 and 2002-03, respectively, with LIHEAP funds. We questioned costs totaling $1,077,842.

(2) As discussed in the Activities Allowed or Unallowed section (item a.(1)) of this finding, DHS did not have a method in place to ensure that it did not

use leveraging incentive funds for planning and administrative costs. We questioned the costs in item a. of this finding.

f. Procurement and Suspension and Debarment

DHS did not enter into a written contract with a vendor that provided third-party evaluation services for the 2001 Residential Energy Assistance Challenge Program. Also, DHS, in coordination with DMB, did not maintain supporting documentation of required signed lobbying certification and contractor suspension debarment certifications for LIHEAP contracts. As a result, we questioned costs totaling $73,321 (see Finding 17, items a.(3), c., and d., and related recommendation).

g. Reporting

As discussed in the Matching, Level of Effort, and Earmarking section (item e.(1)) of this finding, DHS did not include administrative costs incurred by LIHEAP subrecipients in its total planning and administrative costs. DHS improperly included the subrecipients' administrative costs in the nonadministrative expenditures of LIHEAP. As a result, we estimated that DHS overstated LIHEAP federal expenditures on the LIHEAP financial status report (SF-269A) by $385,320 and $692,522 in fiscal years 2003-04 and 2002-03, respectively.

Federal regulation 45 *CFR* 96.30 states that DHS's fiscal control and accounting procedures must be sufficient to permit preparation of the SF-269A.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER LIHEAP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES, ELIGIBILITY, AND REPORTING.

We also recommend that DHS improve its internal control over LIHEAP to ensure and its compliance with federal laws and regulations regarding activities allowed or unallowed and matching, level of effort, and earmarking.

FOR THE FOURTH CONSECUTIVE AUDIT, WE FURTHER RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING LIHEAP ELIGIBILITY AND THE PROPRIETY OF LIHEAP EXPENDITURES.

FINDING 430513

13. Child Care Cluster, *CFDA* 93.575 and 93.596

U.S. Department of Health and Human Services	Child Care Cluster: *CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 02 01 MI CCDF (Matching) G 03 01 MI CCDF (Mandatory) G 03-01 MI CCDF (Matching) G 04 01 MI CCDF (Mandatory) G 04 01 MI CCDF (Matching)	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $372

DHS's internal control over the Child Care Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Child Care Cluster.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in Child Care Cluster awards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over activities allowed or unallowed, allowable costs/cost principles, and eligibility. We determined that DHS did not implement sufficient corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed, allowable costs/cost principles, and eligibility. This is evidenced by the noncompliance reported in items a., b., and d. of this finding.

Federal expenditures for the Child Care Cluster totaled approximately $342.4 million for the two-year period ended September 30, 2004. We identified known questioned costs of $372 and known and likely questioned costs totaling $168,047,276.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to Child Care Cluster federal laws and regulations. Our audit tests disclosed:

(1) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain documentation to support client eligibility for day-care benefits in 22 (61%) of 36 expenditures reviewed. We questioned costs of $1,000 in item b.(1) of this finding.

Federal law 42 *USC* 9858c(c)(2)(A) states that Child Care Cluster funds may be used for child care services on behalf of an eligible child.

(2) DHS needs to improve its internal control to help ensure that it issues required child care certificates directly to parents receiving day-care assistance as required by federal law.

Federal law 42 *USC* 9858c(c)(2)(A) states that Child Care Cluster funds used for child care services need to be in the form of grants, contracts, or certificates. In addition, federal law 42 *USC* 9858n(2) requires that child care certificates be issued directly to a parent receiving day-care assistance.

DHS relied on the unified child day-care application within the Customer Information Management System (CIMS) to generate the required child care certificate/notice of authorization to the parent. Our review of the automated process identified weaknesses in the application controls that reduced the reliability of the process. DHS did not have a reconciliation process, such as a comparison of control totals, of child care certificates authorized to those that were printed and issued. Also, DHS informed us that the application had incurred several program changes during our audit period. DHS did not always fully test the effects of the program changes and did not maintain documentation of the testing of the program changes.

b. Allowable Costs/Cost Principles

DHS did not ensure that Child Care Cluster expenditures were for allowable costs per OMB Circular A-87. Our audit tests disclosed:

(1) DHS did not maintain documentation to support the amount of child day-care payments made or client eligibility. In 26 (72%) of 36 payments, DHS child day-care payment calculations and supporting documentation did not agree or DHS did not have key eligibility documentation in the client case file. As a result, we questioned costs of $1,060.

We noted payment calculation differences resulting from incomplete documentation needed to properly calculate benefits, miscalculated department pay percentages, and incorrectly applied hourly rates. Also, we noted incomplete documentation related to eligibility factors, such as household income level, child's age, and client's eligibility reason verifications.

We reported this same condition in prior audits. DHS responded that it changed policy to identify the required documentation for the clients' case files and that it provided revised case packet covers and case reading forms to local office staff.

(2) DHS allocated Child Care Cluster training costs to an incorrect cost pool. We identified negative questioned costs of $688 (see Finding 18, item a., and related recommendation).

OMB Circular A-87 requires that DHS adequately support costs charged to federal awards and allocate indirect costs according to DHS's PACAP.

c. Cash Management

DHS did not draw the federal funds for the Child Care Cluster in accordance with the CMIA (see Finding 21, items a.(1) and a.(2), and related recommendation).

d. Eligibility

As discussed in the Allowable Costs/Cost Principles section (item b. (1)) of this finding, DHS did not maintain documentation to support client eligibility for day-care benefits in 22 (61%) of 36 expenditures reviewed. We noted incomplete supporting documentation errors related to: child's age, child's citizenship, client's household income level, client's assertion that he/she pursued other benefits, and client's eligibility reason verifications. We questioned costs of $1,000 in item b.(1) of this finding.

Federal regulation 45 *CFR* 98.16(g)(5) requires that DHS identify additional eligibility requirements in its Child Care and Development State Plan. Section 3.3 of DHS's Child Care and Development State Plan provides specific documentation requirements for client eligibility.

e. Subrecipient Monitoring

DHS did not ensure that it effectively monitored the activities of its Child Care Cluster subrecipients as required by OMB Circular A-133:

(1) DHS did not have a method to document the review of monthly and quarterly reports submitted by Child Care Cluster subrecipients. As a result, DHS could not demonstrate that it reviewed the reports.

DHS's Child Care and Development State Plan states that DHS maintains control of subrecipient activities through ongoing monitoring of monthly and quarterly reports.

(2) DHS did not always issue management decisions regarding subrecipient Single Audit findings within six months of receipt of subrecipient reports (see Finding 20, item b., and related recommendation).

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE CHILD CARE CLUSTER TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

We also recommend that DHS improve its internal control over the Child Care Cluster to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FOR THE FOURTH CONSECUTIVE AUDIT, WE FURTHER RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING CHILD CARE CLUSTER ELIGIBILITY AND THE PROPRIETY OF CHILD CARE CLUSTER EXPENDITURES.

FINDING 430514

14. Foster Care: Title IV-E, *CFDA* 93.658

U.S. Department of Health and Human Services	*CFDA* 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $8,924,359

DHS's internal control over the Foster Care Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and procurement and suspension and debarment. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Foster Care Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Foster Care Program awards.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over activities allowed or unallowed, allowable costs/cost principles, and eligibility. We determined that DHS did not implement sufficient corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed, allowable costs/cost principles, and eligibility. This is evidenced by the noncompliance reported in items a., b., and c. of this finding.

Federal expenditures for the Foster Care Program totaled approximately $253.4 million for the two-year period ended September 30, 2004. We identified known questioned costs of $8,924,359 and known and likely questioned costs totaling $47,152,137.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to Foster Care Program federal laws and regulations. As a result, we questioned costs totaling $8,188,402. Our audit tests disclosed:

(1) DHS inappropriately charged the Foster Care Program for the following Adoption Assistance Program related activities:

(a) DHS reimbursed child placement agencies $7,993,363 under adoption placement contracts between DHS and the agencies for activities related to finding a permanent adoptive placement for the child. These activities can include assessments of the physical and mental health of the child, recruitment efforts to find an adoptive family, and evaluations of interested adoptive families. Under the terms of these contracts, the amount of payment to the child placement agency is tied to the amount of time lapsed between the date the court terminates parental rights and the date the agency places the child in an adoptive home. Once the child placement

agency places the child in an adoptive home, the agency provides supervision of the placement before the adoption is finalized.

(b) DHS reimbursed adoptive parents $195,039 for one-time adoption related expenses. These costs included court filing fees and the cost of new birth certificates.

The administrative expenditures DHS charged were for activities directly related to permanent adoptive placements and met the federal definition of nonrecurring adoption expenses as defined in federal regulation 45 *CFR* 1356.41(i). Federal regulation 45 *CFR* 1356.41(f)(1) provides that DHS should consider these nonrecurring adoption expenses as administrative expenditures of the Adoption Assistance Program.

(2) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain documentation that 1 (3%) of 31 maintenance payments were for activities allowed. Federal law 42 *USC* 675(4) defines "maintenance payments" as payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation. We questioned these costs in item b.(1) of this finding.

(3) As discussed in the Eligibility section (item c.) of this finding, DHS issued Foster Care Program payments on behalf of ineligible children. Federal law 42 *USC* 672b requires DHS to issue foster care maintenance payments on behalf of only eligible children. We questioned the costs of these expenditures in item c. of this finding.

We reported similar conditions in our prior audit. DHS responded that it had proposed case management system changes for electronic supervisory review and approval of case plans before further case plan activities can be completed by the worker.

b. Allowable Costs/Cost Principles

DHS did not ensure that Foster Care Program expenditures met allowable cost principles of OMB Circular A-87. As a result, we questioned costs totaling $101,428. Our audit tests disclosed:

(1) For 7 (23%) of 31 expenditures, DHS did not maintain documentation supporting the payment. DHS did not maintain adequate documentation to support that the child was in the providers' care, invoices or receipts to support graduation expense, and support for the difficulty-of-care supplemental payment issued. We questioned $2,065 of costs, of which $1,698 is questioned in the Eligibility section (item c.) of this finding.

(2) As discussed in the Procurement and Suspension and Debarment section (item d.) of this finding, DHS did not maintain contract documentation as required. We questioned the costs in item d. of this finding.

(3) DHS did not allocate costs to the Foster Care Program based on the cash basis of accounting. We questioned costs totaling $101,061 (see Finding 18, item b., and related recommendation).

OMB Circular A-87 requires that costs charged to federal awards be adequately supported and be allocable according to DHS's federally approved PACAP.

We reported similar conditions in our prior audits. DHS responded that it had proposed case management system changes to result in electronic supervisory review and approval of case plans and to deter issuance of payments without the proper determination being made.

c. Eligibility

DHS issued Foster Care Program payments on behalf of ineligible children. As a result, we noted exceptions in 8 (26%) of 31 maintenance payments, 3 (60%) of 5 day-care payments, and 1 (1%) of 97 provider licenses. We questioned costs totaling $2,279. Our audit tests disclosed:

(1) DHS improperly claimed Foster Care Program funding for maintenance payments issued on behalf of children who were ineligible at the time the service was rendered because DHS could not provide judicial

determinations and court orders did not contain language required by federal regulations:

(a) For 7 (33%) of 21 expenditures, DHS issued maintenance payments on behalf of ineligible children. In 6 cases, it did not have documentation that a judicial determination had been made for the time period of the payment. In the remaining case, DHS documentation did not support that a judicial determination of the reasonableness of the efforts to finalize a permanency plan had been made within the required 12-month period.

Federal regulation 45 *CFR* 1356.21(b)(2) requires that a judicial determination of the reasonableness of the efforts to finalize the permanency plan must be made within 12 months of the child entering foster care and every 12 months thereafter. In addition, federal regulation 45 *CFR* 1356.21(d) requires that the judicial determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

(b) For 3 (10%) of 31 expenditures, DHS issued maintenance payments on behalf of ineligible children because the court order did not indicate that removal from the home was in the child's best interest.

Federal regulation 45 *CFR* 1356.21(c) requires that the first court order removing the child from the home contain a judicial determination that removal from the home is in the best interest of the child or that continuation in the home is contrary to the child's welfare. In addition, federal regulation 45 *CFR* 1356.21(d) requires that this determination be explicitly documented, made on a case-by-case basis, and stated in the court order.

(2) For 3 (60%) of 5 day-care expenditures, DHS improperly claimed Foster Care Program funding for day-care benefits issued on behalf of children who were identified as ineligible in the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ).

DHS uses SWSS-FAJ to determine Foster Care Program eligibility. Our review noted that, in 3 cases, SWSS-FAJ indicated that the child was

ineligible for Foster Care Program benefits. However, DHS charged day-care benefits paid on behalf of these children to the Foster Care Program.

(3) For 1 (1%) of 97 Foster Care Program provider licenses reviewed, DHS improperly claimed Foster Care Program funding for maintenance payments on behalf of children who were ineligible because they were not placed with providers who were licensed during the billing period of the maintenance payment.

Federal law 42 *USC* 672(c) requires that DHS only make maintenance payments on behalf of children placed in licensed foster family homes or child care institutions.

We reported similar conditions in our prior audit. DHS responded that its policy and procedures mandate supervisory review and approval of case plans and that it has proposed case management system changes for an electronic approval process in which the supervisor must review and sign before further case plan activities can be completed by the worker. Also, DHS responded that the State Court Administrative Office will be training local courts to properly word court orders to ensure that eligibility is correctly determined.

d. Procurement and Suspension and Debarment

DHS did not enter into a written contract with a vendor of the Foster Care Program and it did not maintain supporting documentation that DHS provided a county DHS board an opportunity to comment on a contract. We questioned costs totaling $632,250 (see Finding 17, items a.(2) and e., and related recommendation).

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE FOSTER CARE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND ELIGIBILITY.

FOR THE FOURTH CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING FOSTER CARE PROGRAM ELIGIBILITY AND THE PROPRIETY OF FOSTER CARE PROGRAM EXPENDITURES.

FINDING 430515

15. Adoption Assistance, *CFDA* 93.659

U.S. Department of Health and Human Services	*CFDA* 93.659 Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $56,109

DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Adoption Assistance Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adoption Assistance Program awards.

Federal expenditures for the Adoption Assistance Program totaled approximately $192.8 million for the two-year period ended September 30, 2004. We identified known questioned costs of $56,109 and known and likely questioned costs totaling $45,753,803.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to the Adoption Assistance Program federal laws and regulations. As a result, we questioned costs of $45,063. Our audit tests disclosed:

(1) DHS incorrectly charged 21 medical subsidy payments totaling $42,969 to the Adoption Assistance Program.

(2) DHS incorrectly charged 6 recoupment expenditure credits and reissued payments totaling $2,094 to the Adoption Assistance Program. DHS should have charged these expenditures to the TANF Program or used State funds.

(3) As discussed in the Eligibility section (item d.) of this finding, DHS made adoption subsidy payments on behalf of an ineligible child and to an ineligible adoptive parent. As a result, the payments were not for activities allowed by Adoption Assistance Program federal laws and regulations. We questioned the costs in items d.(2) and d.(3) of this finding.

Federal law 42 *USC* 673(a)(1)(B) states that DHS may make adoption subsidy payments to adoptive parents on behalf of eligible children and does not allow DHS to expend Adoption Assistance Program awards for medical subsidy payments, TANF, or State-funded purposes. Also, federal regulation 45 *CFR* 1356.30 states that DHS may not claim federal financial participation for any adoption subsidy payment made on behalf of a child if, based on a criminal records check, a court of competent jurisdiction has determined that the prospective adoptive parent has been convicted of specified crimes.

b. Allowable Costs/Cost Principles

DHS did not allocate costs to the Adoption Assistance Program based on the cash basis of accounting. We questioned costs totaling $5,534 (see Finding 18, item b., and related recommendation).

c. Cash Management

DHS included erroneous information in the fiscal year 2002-03 annual report to the Michigan Department of Treasury (see Finding 21, item b.(3), and related recommendation).

d. Eligibility

DHS did not ensure that it issued adoption subsidy payments on behalf of only eligible children and to adoptive parents eligible for subsidy according to federal laws and regulations. As a result, we identified known questioned costs of $5,512 and known and likely question costs totaling $45,559,881. Our audit tests disclosed:

(1) As discussed in Finding 14, item c., DHS issued foster care maintenance payments on behalf of children who were not eligible for the Foster Care Program. In determining if an adoption subsidy qualifies for payment under the Adoption Assistance Program, DHS relies on the Foster Care Program eligibility determination that DHS previously made within SWSS-FAJ. In our review of the Foster Care Program, we noted that 26% of the foster care maintenance payments sampled did not meet the Foster Care Program eligibility requirements. Federal law 42 *USC* 673(a)(2)(A) requires that a child must be eligible for the Foster Care Program, the former Aid to Families with Dependent Children (AFDC) Program, or SSI to receive an adoption subsidy payment. We determined that 96% of the adoption cases that began receiving subsidy during our audit period were on behalf of Foster Care Program children. We identified the known and likely questioned cost impact on adoption subsidy payments to be $45,559,881.

(2) DHS issued 1 (2%) of 56 monthly subsidy payments totaling $903 on behalf of a child who was not eligible for the Foster Care Program per SWSS-FAJ and who was not eligible for AFDC or SSI.

Federal law 42 *USC* 673(a)(2)(A) requires that the child for whom adoption subsidy payments are made on behalf of must be eligible for the Foster Care Program, the former AFDC Program, or SSI.

(3) DHS issued adoption subsidy payments totaling $4,609 to an adoptive parent convicted of a specified crime rendering the parent ineligible to receive adoption subsidy payments.

Federal regulation 45 *CFR* 1356.30 states that DHS may not approve any prospective parent for Adoption Assistance Program subsidy payments if the prospective adoptive parent has been convicted of a specified crime.

We reported similar conditions in our prior Single Audit. DHS responded that the adoption subsidy manager reviewed criminal history background requirements, payment requirements, and adoption subsidy agreements with staff. Our testing results indicated that DHS had made improvements in documenting the review of prospective parents' criminal history background and had documented that a criminal history background check was conducted for the adoptive parent in this instance. However, in this instance, DHS informed us that the conviction date most likely occurred after the date of the criminal history background check. DHS should determine the need to revise its procedures related to the timing of the criminal history background checks in the adoption process.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

We also recommend that DHS improve its internal control over the Adoption Assistance Program to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed.

FINDING 430516

16. Chafee Foster Care Independent Living, *CFDA* 93.674

U.S. Department of Health and Human Services	*CFDA* 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420 G 04 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $3,212,293

DHS's internal control over the Chafee Foster Care Independent Living Program (CFCIP) did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; and matching, level of effort, and earmarking. DHS could not provide sufficient documentation supporting its compliance with matching, level of effort, and earmarking requirements. As a result, we issued an adverse opinion on compliance with federal laws and regulations for CFCIP.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future grant award reductions for CFCIP.

In the prior Single Audit, we disclosed material weaknesses in DHS's internal control over activities allowed or unallowed, allowable costs/cost principles, and eligibility. We determined that DHS did not implement sufficient corrective action during our audit period that would eliminate these weaknesses or provide for effective internal control over federal laws and regulations related to activities allowed or unallowed, allowable costs/cost principles, and eligibility. This is evidenced by the noncompliance reported in items a., b., and c. of this finding.

Federal expenditures for CFCIP totaled approximately $10.1 million for the two-year period ended September 30, 2004. We identified known questioned costs of $3,212,293 and known and likely questioned costs totaling $7,026,735.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that CFCIP expenditures incurred were for activities allowed according to CFCIP federal law. As a result, we questioned costs totaling $968. Our audit tests disclosed:

(1) As discussed in the Allowable Costs/Cost Principles section (items b.(3) and b.(4)) of this finding, DHS charged Jim Casey Youth Opportunity Initiative (JCYOI) payroll and travel costs to CFCIP. We questioned the costs in item b. of this finding.

JCYOI is a national foundation whose purpose is to help youth in foster care aged 14 to 23 years make successful transitions to adulthood. Although CFCIP and JCYOI purposes are generally alike, DHS could not substantiate that JCYOI youth served by the payroll and travel costs were eligible to receive CFCIP funds.

(2) DHS issued payments for services that were not based on the youth's approved service plan in 6 (55%) of 11 expenditures. Also, most of the payments did not appear to be reasonable uses of CFCIP federal awards. For example, in 3 expenditures, DHS paid for out-of-State trips that were not outlined in the youth's service plan or did not appear to be reasonable services for the youth to accomplish self-sufficiency.

If DHS provides services and assistance not outlined in the youth's service plan, DHS cannot ensure that the payments are allowable and serve the youth's goal to accomplish self-sufficiency. The youth's service plan outlines the certain services and assistance the youth needs to obtain employment and make the transition to self-sufficiency.

Federal law 42 *USC* 677(d)(1) states that CFCIP funding may be used in any manner that is reasonably calculated to accomplish the purposes of the program. Federal law 42 *USC* 677(a) describes these activities as assistance in obtaining a high school diploma, career exploration, job placement and retention, vocational training, training in daily living skills, money management, counseling, substance abuse prevention, and preventive health activities.

(3) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain adequate documentation of a case file, birth certificates, service plans, and court orders to support that the youths were of the proper age and eligible to receive assistance and to ensure that payments were for reasonable and necessary services. We questioned the costs in item b.(1) of this finding.

Federal law 42 *USC* 677(a) states that CFCIP funding should be used to provide specified services to youth likely to remain in foster care until 18 years of age as well as former foster care youth between 18 and 21 years of age to help with their transition from foster care to self-sufficiency and adulthood. DHS's CFCIP State Plan further defines a youth's eligibility for services as all youth ages 14 through 20 who are or have been in foster care placement, based on abuse or neglect, through the State of Michigan. Also, the State Plan states that all youth receiving or requesting CFCIP services are assessed on a quarterly basis to determine the types of services necessary that will meet a youth's needs to accomplish self-sufficiency.

(4) DHS inappropriately included a provision for staff training in both homeless youth administration contracts we reviewed. Questioned costs were undeterminable.

Federal law 42 *USC* 677(b)(3)(D) requires DHS to use training funds provided under the Foster Care and Adoption Assistance Programs to provide training to help workers in group homes and case managers understand and address the issues confronting youth preparing for independent living and to coordinate such training with CFCIP. Also, the Administration for Children and Families, U.S. Department of Health and Human Services, issued a clarification for this section, which states that CFCIP funds may not be used to train individuals described in federal law 42 *USC* 677(b)(3)(D).

(5) As discussed in the Eligibility section (item c.(3)) of this finding, DHS inappropriately made payments for youth adjudicated as juvenile justice wards instead of foster care wards based on abuse or neglect. We questioned the costs in item c. of this finding.

Federal law 42 *USC* 677(b)(2)(A) required DHS to develop a state plan to deliver programs to achieve the purposes of CFCIP. DHS's CFCIP State Plan defines a youth's eligibility for services as all youth ages 14 through 20 who are or have been in foster care placement, based on abuse or neglect, through the State of Michigan.

b. Allowable Costs/Cost Principles

DHS did not ensure that CFCIP expenditures met the allowable cost principles of OMB Circular A-87. As a result, we questioned costs totaling $217,552. Our audit tests disclosed:

(1) DHS did not maintain adequate documentation to support 17 (16%) of 109 CFCIP expenditures. We questioned costs of $78,614. We found that the 17 expenditures lacked one or more of the following:

(a) A case file of a youth to support the youth's existence and eligibility and the propriety of the expenditure incurred on the youth's behalf.

(b) Birth certificates to support the youths' age and eligibility for CFCIP.

(c) Service plans for youths for the period of the payment to support that the services provided were reasonable and necessary as outlined in federal law 42 *USC* 677(a).

(d) An invoice or receipt to support the amount of the payment made.

(e) Court orders to support the appropriate adjudication of the youth or the youth's placement with the State.

(2) DHS did not properly approve 11 (10%) of 109 CFCIP expenditures. We found that DHS did not properly approve the payment authorization for 1 of the expenditures. For the remaining 10 expenditures, DHS did not properly approve the related child placing agency contract amendments covering the payments and the audit period. We questioned costs of $7,887.

(3) DHS did not ensure that payroll costs charged to CFCIP were properly documented in compliance with federal requirements. We questioned

costs of $102,181 (see Finding 19, item b., and related recommendations).

(4) DHS did not maintain adequate documentation or proper approval to support travel costs charged to CFCIP. Also, DHS did not ensure that these travel costs were reasonable and necessary to accomplish the purpose of CFCIP. DHS provided documentation for a portion of the travel costs and these travel costs were for JCYOI functions and activity only. As a result, we questioned costs of $28,870.

OMB Circular A-87 requires that costs charged to federal awards be properly approved, adequately supported, and recognized as ordinary and necessary for the performance of CFCIP.

c. Eligibility

DHS did not document the eligibility of youth receiving CFCIP services. As a result, we questioned costs totaling $2,993,773. Our review disclosed:

(1) DHS homeless youth contracts did not contain the appropriate eligibility criteria for the subrecipients to follow when determining a youth's eligibility to receive CFCIP services. Without appropriate eligibility criteria within the contracts, DHS cannot ensure that it is using its CFCIP funds in accordance with federal law.

Each of the 10 homeless youth contracts we reviewed provided for housing to eligible youth. However, the eligibility language in the contract specified the age to be 16 through 20 years and did not include the criteria for the youth to be adjudicated as an abuse or neglect ward and in foster care after age 14.

Federal law 42 *USC* 677(a)(5) allows DHS to provide housing to former foster care recipients between 18 and 21 years of age. Also, federal law 42 *USC* 677(b)(3)(C) requires a state to certify that none of the amounts paid to the state from its grant award will be expended for housing for any youth who has not attained 18 years of age. In addition, DHS's CFCIP State Plan states that all youth adjudicated as abuse or neglect wards, who were in foster care after age 14 and are between 18 and 21 years of age, are eligible for the housing.

(2) As discussed in the Allowable Costs/Cost Principles section (item b.(1)) of this finding, DHS did not maintain adequate documentation of a case file, birth certificates, service plans, and court orders to support the youths' eligibility as required by federal law 42 *USC* 677(a) and DHS's CFCIP State Plan. We questioned the costs in item b.(1) of this finding.

Federal law 42 *USC* 677(a) states that CFCIP funding should be used to provide specified services to youth likely to remain in foster care until 18 years of age as well as former foster care youth between 18 and 21 years of age to help with their transition from foster care to self-sufficiency and adulthood. DHS's CFCIP State Plan further defines the age specific eligibility as all youth entering foster care at age 14 through age 20. Also, the State Plan states that all youth receiving or requesting CFCIP services are assessed on a quarterly basis to determine the types of services necessary that will meet a youth's needs to accomplish self-sufficiency. In addition, the State Plan allows only youth adjudicated as abuse or neglect wards who were in foster care in Michigan after age 14 to be eligible for CFCIP services.

(3) DHS inappropriately made payments for youth not adjudicated as foster care wards based on abuse or neglect as required by federal law and DHS's CFCIP State Plan in 7 (11%) of 65 expenditures. DHS made these payments for youth who were adjudicated as juvenile justice wards.

Federal law 42 *USC* 677(a) requires CFCIP services to be provided to youth in foster care or formerly in foster care. DHS's CFCIP State Plan requires that the youth be adjudicated as abuse or neglect wards and in foster care after age 14.

d. Matching, Level of Effort, and Earmarking

DHS was not able to identify expenditures related to room and board for children who were at least 18 years of age but who were less than 21 years of age. As a result, we could not determine if DHS complied with CFCIP earmarking requirements.

Federal law 42 *USC* 677(b)(3)(B) provides that DHS must certify that a maximum of 30% of each year's grant award will be expended for room or

board for children who have left foster care because they had attained 18 years of age but had not attained 21 years of age.

e. Subrecipient Monitoring

Our review disclosed:

(1) DHS did not provide subrecipients with timely information relating to the *CFDA* number, the name of the federal awarding agency, and the related federal laws and regulations for subrecipient contracts reviewed (see Finding 20, item c., and related recommendation).

(2) DHS did not sufficiently monitor the activities of subrecipients to ensure that they used federal awards for authorized purposes in compliance with federal laws and regulations.

Our review of 20 subrecipient contracts disclosed that DHS did not have consistent monitoring procedures among its CFCIP subrecipients and that most of the subrecipient contracts were under $300,000. Therefore, DHS could not rely on Single Audits of the subrecipients to ensure that they used CFCIP funds in compliance with federal laws and regulations.

OMB Circular A-133, Section 400(d), requires DHS to monitor the activities of its subrecipients to ensure that they used federal awards in compliance with federal laws and regulations.

RECOMMENDATION

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER CFCIP TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ACTIVITIES ALLOWED OR UNALLOWED; ALLOWABLE COSTS/COST PRINCIPLES; ELIGIBILITY; MATCHING, LEVEL OF EFFORT, AND EARMARKING; AND SUBRECIPIENT MONITORING.

FINDING 430517

17. Procurement and Suspension and Debarment

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100	Award Period: 10/01/2001 - 09/30/2004
	Questioned costs of $4,999,065 were included in Finding 430505.

U.S. Department of Justice	*CFDA* 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003
	Questioned costs of $12,313 were included in Finding 430508.

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 02 01 MI TANF G 03 01 MI TANF G 04 01 MI TANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of $2,517,040 were included in Finding 430509.

U.S. Department of Health and Human Services	*CFDA* 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 03 AA MI 5100 G 04 AA MI 5100	Award Period: 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of $8,030,288 were included in Finding 430511.

U.S. Department of Health and Human Services	*CFDA* 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of $73,321 were included in Finding 430512.

U.S. Department of Health and Human Services	*CFDA* 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned costs of $632,250 were included in Finding 430514.

Social Security Administration	Disability Insurance/SSI Cluster: *CFDA* 96.001 Social Security - Disability Insurance
Award Number: 03-04-MIDI-00	Award Period: 10/01/2002 - 09/30/2003
	Questioned costs: $2,990

DHS, in coordination with DMB, needs to improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations related to DHS's procurement and suspension and debarment practices for REAP.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of federal awards. We questioned costs totaling $16,267,267.

Federal regulation 45 *CFR* 92.36 requires that DHS follow State laws, policies, and procedures that conform to applicable federal laws and standards when procuring goods or services for the administration of a federal award. The *Michigan Compiled Laws* and the DMB Administrative Guide, policies 500 and 600, establish

policies and procedures for all executive branch departments for procuring goods and services. DMB provides acquisition services for some DHS procurements.

We reviewed 43 DHS federal program contracts and procurement expenditure items for compliance with procurement and suspension and debarment requirements for the two-year period ended September 30, 2004. Our review of DHS's procurement, suspension, and debarment practices disclosed:

a. DHS did not enter into written contracts for 3 (7%) of 43 procurements that required a contractual relationship. As a result, we questioned costs totaling $8,726,776. Our audit tests disclosed:

   (1) DHS did not enter into written contracts with 2 REAP subrecipients that provided foster care services for refugee minors under UMP.

   We reported this same condition in our prior audits. DHS amended the existing contracts it had with these subrecipients for other services to include REAP's UMP services that had already been provided. However, the amendments were not effective until August 5, 2004. DHS reimbursed the subrecipient $8,028,290 during the audit period.

   (2) DHS did not enter into a written contract with a vendor of the Foster Care Program that provided general and specialized foster care services to children during the audit period. DHS paid the vendor $631,486.

   (3) DHS did not enter into a written contract with a vendor of LIHEAP that provided third-party evaluation services for the 2001 Residential Energy Assistance Challenge Program during our audit period. DHS paid the vendor $67,000.

   DMB Administrative Guide procedures 0510.01 and 0510.15 require a contract signed by both parties when procuring all professional services, regardless of duration; other multi-year services; and direct human services to individual clients who are economically underprivileged or socially deprived. Contracts must be agreed to and signed by authorized representatives of all parties before services begin and expenditures are incurred.

b. DHS, in coordination with DMB, did not obtain supporting documentation of State Administrative Board approval for 1 (3%) of 34 contracts that required the approval. As a result, we questioned costs for the VAW Program, in the amount of $12,313.

DMB Administrative Guide procedure 0620.01 requires State Administrative Board approval for all grants and contractual agreements of $250,000 or more prior to the grant or contract initiation date. The amount of the VAW Program contract was $1,670,938.

c. DHS, in coordination with DMB, did not maintain supporting documentation of a signed lobbying certification for 3 (9%) of 34 contracts requiring the certification. As a result, we questioned costs for the Food Stamps Program, TANF, LIHEAP, and REAP in the amounts of $4,999,065, $2,517,040, $6,321, and $1,998, respectively. Questioned costs related to the VAW Program are included in item b. of this finding.

Federal law 31 *USC* 1352 requires that any person who requests or receives a subcontract or contract under a federal grant to certify that they have not made, and will not make, any prohibited payments.

d. DHS, in coordination with DMB, did not maintain supporting documentation that 3 (8%) of 38 contracts were awarded to vendors who were not suspended or debarred. The questioned costs for the Food Stamps Program, TANF, LIHEAP, and REAP are included in item c. of this finding and questioned costs for the VAW Program are included in item b. of this finding.

Federal regulation 45 *CFR* 92.35 prohibits DHS and its subgrantees from contracting with or making subawards to any party that is suspended or debarred.

e. DHS did not maintain supporting documentation of county DHS boards' opportunity to review and comment on 2 (6%) of 36 contracts when the opportunity to review and comment was applicable. As a result, we questioned costs for the Disability Insurance/SSI Cluster and the Foster Care Program in the amounts of $2,990 and $764, respectively.

Section 400.45(2)(e) of the *Michigan Compiled Laws* provides that DHS shall not enter into a contract with a public or private agency within a county until the DHS board within that county has been provided an opportunity for review of the contract.

f. DHS did not maintain documentation that its direct human and medical services procurement procedures were approved by DMB.

DMB Administrative Guide procedure 0510.15 states that all departments' procurement procedures for these services must be approved by the director of DMB Acquisition Services.

RECOMMENDATIONS

We recommend that DHS, in coordination with DMB, improve its internal control to ensure that its procurement and suspension and debarment practices are in compliance with applicable federal laws and regulations.

FOR THE THIRD CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS COMPLY WITH ITS PRESCRIBED INTERNAL CONTROL FOR ISSUING CONTRACTS TO OBTAIN SERVICES RENDERED UNDER REAP.

FOR THE SECOND CONSECUTIVE AUDIT, WE FURTHER RECOMMEND THAT DHS, IN COORDINATION WITH DMB, ESTABLISH INTERNAL CONTROL TO ENSURE THAT IT DOES NOT CONTRACT WITH OR MAKE GRANT AWARDS TO PARTIES THAT HAVE BEEN SUSPENDED OR DEBARRED.

FINDING 430518

18. Public Assistance Cost Allocation Plan (PACAP)

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100	Award Period: 10/01/2002 - 09/30/2003
	Questioned costs of $478 were included in Finding 430505.

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 03 01 MI TANF	Award Period: 10/01/2002 - 09/30/2004
	Negative questioned costs of $2,408 were included in Finding 430509.

U.S. Department of Health and Human Services	*CFDA* 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 02 AA MI 5110 G 03 AA MI 5100	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Negative questioned costs of $5 were included in Finding 430511.

U.S. Department of Health and Human Services	*CFDA* 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned costs of $582 were included in Finding 430512.

U.S. Department of Health and Human Services	Child Care Cluster*: CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 02 01 MI CCDF (Matching) G 03 01 MI CCDF (Mandatory) G 03-01 MI CCDF (Matching)	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
	Negative questioned costs of $688 were included in Finding 430513.

U.S. Department of Health and Human Services	*CFDA* 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003
	Questioned costs of $101,061 were included in Finding 430514.

U.S. Department of Health and Human Services	*CFDA* 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003
	Questioned costs of $5,534 were included in Finding 430515.

U.S. Department of Health and Human Services	Medicaid Cluster: *CFDA* 93.778 Medical Assistance Program (Medicaid, TXIX)
Award Number: 05 03 05 MI 5028 05 03 05 MI 5048	Award Period: 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003
Pass-Through Agency: Michigan Department of Community Health	Questioned costs: $417

DHS needs to improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that cost allocations are applied to the correct cost pool and applied at the correct time.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in federal awards. We questioned costs totaling $104,971.

All costs incurred by DHS are assigned to cost centers. The majority of cost centers are directly charged to a specific federal program. However, DHS incurs a significant amount of costs that benefit more than one federal program, such as the salaries of local DHS office employees who determine client eligibility for several federal programs. DHS assigns the costs that cannot be directly charged to a specific federal program to cost pools. The costs assigned to these pools are then allocated to the federal programs from which they benefit. DHS has approximately 64 pools.

Our review of DHS's PACAP disclosed that DHS incorrectly allocated costs to one cost pool and allocated costs to another cost pool prior to actually incurring the cash expenditure:

a. DHS incorrectly allocated family independent specialists' training costs of $7,977 to cost pool 4; however, these costs should have been allocated to cost pool 23. As a result, DHS undercharged federal programs $1,626 and did not minimize the use of State General Fund/general purpose funds, in accordance with State law.

   OMB Circular A-87 requires that costs charged to federal awards must be allocated according to DHS's federally approved PACAP. Also, Section 18.1395(5) of the *Michigan Compiled Laws* states that, when appropriations are financed by multiple sources, any State General Fund/general purpose appropriations shall be used only after the restricted funds available have been expended.

b. DHS did not always allocate costs to all federal programs on the correct accounting basis. DHS allocated an estimated $1,800,000 to cost pool 7, based on an estimated payable for accrued taxes and insurance for leases on privately owned buildings. As a result, DHS charged $101,063 and $5,534 to the Foster Care: Title IV-E and Adoption Assistance Programs, respectively, prior to actually incurring the cash expenditure. Federal regulation 45 *CFR* 95.13 requires these programs to utilize the cash basis of accounting; therefore, DHS should not have allocated accrued costs through the PACAP until cash expenditures were actually incurred.

RECOMMENDATION

We recommend that DHS improve internal control over its PACAP to ensure compliance with federal laws and regulations by ensuring that cost allocations are applied to the correct cost pool and applied at the correct time.

FINDING 430519

19. Federal Payroll

U.S. Department of Health and Human Services	*CFDA* 93.556: Promoting Safe and Stable Families
Award Number: G 03 01 MI OOFP G 04 01 MI OOFP	Award Period: 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $93,231

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 03 01 MI TANF G 04 01 MI TANF	Award Period: 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of $40,441 were included in Finding 430509.

U.S. Department of Health and Human Services	*CFDA* 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420 G 04 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned costs of $102,181 were included in Finding 430516.

DHS did not ensure that payroll costs charged to federal programs were properly documented in compliance with federal requirements.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in federal awards. We questioned costs totaling $235,853.

DHS's direct federal payroll expenditures totaled approximately $104 million for the two-year period ended September 30, 2004. We reviewed 59 DHS direct federal payroll expenditure items and 1 payroll expenditure in which DHS transferred a lump sum of payroll costs to CFCIP for compliance with federal laws and regulations regarding allowable costs/cost principles.

Our review disclosed:

a. DHS did not maintain the required personnel activity report to support predetermined payroll cost distribution rates for one employee charged to multiple federal programs. We also noted that DHS did not document actual hours worked on each federal program for this employee. Because DHS did not document the actual hours worked on each of the federal programs for this employee, it could not verify that the predetermined distribution rate accurately reflected actual activity of the employee and that payroll costs charged to the federal programs were appropriate. As a result, DHS was not in compliance with federal regulations regarding federal payroll documentation and we questioned costs totaling $133,672.

b. DHS did not maintain the required personnel activity reports to support payroll costs charged to CFCIP for 4 employees charged to multiple activities and cost objectives. DHS's documentation to support its lump sum transfer of payroll costs to CFCIP disclosed personnel activity reports that reflected hours worked on JCYOI activity only. JCYOI is a national foundation. We questioned costs totaling $102,181.

OMB Circular A-87 requires employees charged to multiple activities or cost objectives to document and maintain personnel activity reports or equivalent documentation that supports the distribution of their payroll costs. Personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of the employee, must account for total activity for which the employee is compensated, must be prepared monthly, and must be signed by the employee. Also, OMB Circular A-87 requires DHS to compare, at least quarterly, actual payroll costs to predetermined payroll distributions and to revise distributions as necessary.

We reported similar conditions in prior audits for other DHS major federal programs.

RECOMMENDATION

FOR THE FOURTH CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS ENSURE THAT PAYROLL COSTS CHARGED TO FEDERAL PROGRAMS ARE

PROPERLY DOCUMENTED IN COMPLIANCE WITH FEDERAL REQUIREMENTS.

FINDING 430520

20. Subrecipient Monitoring

U.S. Department of Justice	*CFDA* 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.588 Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 0201MITANF G 0301MITANF G 0401MITANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	Child Care Cluster: *CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.585: Social Services in Empowerment Zones and Enterprise Communities
Award Number: G 95 01 MI ECUR G 95 02 MI ECUR G 96 01 MI EZUR	Award Period: 12/21/1994 - 12/31/2009 12/21/1994 - 12/21/2005 10/01/1995 - 12/21/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

DHS's internal control did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions in federal awards.

Our review of DHS's centralized subrecipient monitoring disclosed:

a. DHS did not have a complete system to identify all of its subrecipients and the award payments issued to its subrecipients.

   An incomplete system to identify all subrecipients and the amount of federal awards issued to them hinders DHS's ability to track and monitor its subrecipients' compliance with federal laws and regulations. Also, an incomplete system to identify all award payments issued to subrecipients can cause misstatements in DHS's SEFA, as evidenced in Finding 1, item c.(3).

   DHS used a database and contract payment system as its primary sources to identify subrecipients and track federal awards issued to the subrecipients. However, we noted award payments issued to 5 subrecipients totaling $20.3 million for which the subrecipients were not designated as a subrecipient in the database for the federal program that DHS made federal awards to or which DHS did not issue through the contract payment system.

   OMB Circular A-133, Section 400, requires DHS to monitor the activities of subrecipients as necessary to ensure their compliance with federal laws and regulations.

b. DHS did not always issue management decisions regarding subrecipient Single Audit findings within six months of receipt of subrecipient reports as required.

   Untimely management decisions hinder DHS's ability to ensure subrecipients' corrective action for audit findings to prevent future sanctions or disallowed costs.

   DHS did not issue a management decision on a timely basis for 5 (63%) of 8 subrecipient audit reports reviewed. On average, DHS was approximately 169 days late in issuing these management decisions.

   OMB Circular A-133, Section 400, requires DHS to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report.

c. DHS did not provide subrecipients with timely information relating to the *CFDA* number, the name of the federal awarding agency, or the related federal laws and regulations for 36 (97%) of 37 subrecipient contracts reviewed.

To reduce the risk of improper use of federal awards, subrecipients should be notified of the *CFDA* number, the federal awarding agency, and the requirements imposed on them by federal laws and regulations during the contract initiation process and prior to award payments being issued to the subrecipients.

DHS's standardized subrecipient contract document did not include the federal program name, *CFDA* number, or the related federal laws and regulations. Instead, DHS directed subrecipients to a contract payment tracking Web site to obtain the *CFDA* number, the federal awarding agency, and the related federal laws and regulations. However, the Web site did not provide the federal awarding agency or related federal laws and regulations and only provided the *CFDA* number after DHS issued the first award payment to the subrecipient.

Public Law 104-156, Section 7502(f)(2), and OMB Circular A-133, Section 400, require DHS to provide its subrecipients with the federal program name, including the *CFDA* title and number and the name of the federal awarding agency, and to advise subrecipients of requirements imposed on them by federal laws, regulations, contracts, and grant agreements governing the use of the federal awards it makes.

d. DHS did not have procedures to appropriately evaluate the relationship of contracted for-profit entities as subrecipients or vendors.

Our review of DHS procedures for determining whether a subrecipient or vendor relationship existed disclosed that DHS automatically classified for-profit agencies as vendors. We noted that DHS had standardized contract language for vendor contracts that did not impose audit requirements on the contractor and did not allow audit costs to be billed to the contract. Also, if the contractor had an audit performed, the contractor was not required to submit the audit report to DHS. Because of this vendor classification and vendor contract language, DHS risks the ability to ensure that any for-profit subrecipients complied with federal award requirements.

OMB Circular A-133, Section 210, requires DHS to establish requirements to ensure compliance by for-profit subrecipients with federal award requirements.

RECOMMENDATION

We recommend that DHS improve its internal control to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

FINDING 430521

21. Cash Management

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: 2MI400100 2MI420122	Award Period: 10/01/2002 - 09/30/2003 10/01/2001 - 09/30/2003
	Questioned Costs: $0

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services - Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	Child Care Cluster: *CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF G 02 01 MI CCDF (Matching) G 03 01 MI CCDF (Mandatory) G 03 01 MI CCDF (Matching) G 04 01 MI CCDF (Mandatory) G 04 01 MI CCDF (Matching)	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

DHS's internal control did not ensure compliance with federal cash management requirements contained in the federal Cash Management Improvement Act (CMIA) of 1990.

As a result, DHS overdrew cash funds, lost and understated interest due to the State from the U.S. Department of Treasury, and received excess interest from the U.S. Department of Treasury. Noncompliance with CMIA provisions could negatively affect federal program funding, including possible sanctions by federal granting agencies.

The CMIA was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds. The State has an agreement with the U.S. Department of Treasury to implement the CMIA in accordance with federal regulation 31 *CFR* 205. To comply with the CMIA, the State must annually compare actual and prescribed cash draws and determine if interest is due from or to the U.S. Department of Treasury.

Our review of DHS's compliance with the CMIA disclosed:

a. DHS did not always draw federal funds in accordance with the CMIA agreement:

(1) DHS did not draw the prescribed amounts for the Rehabilitation Services: Vocational Rehabilitation Grants to States Program and the Child Care Cluster. As a result, DHS overdrew approximately $2.3 million during fiscal year 2003-04.

During the first three quarters of fiscal year 2003-04, DHS made biweekly cash draws for the Rehabilitation Services: Vocational Rehabilitation Grants to States Program that exceeded the prescribed draw amount. DHS attributed the excess draw amounts to human error and reimbursed the U.S. Department of Education for the overdrawn amount.

During December 2003, DHS made three excess draws for the Child Care Cluster because DHS applied a 100% factor rather than the appropriate federal financial participation rate of 55.42% to determine the draw amount. Federal regulation 45 *CFR* 98.53 states that the Child Care Cluster will match DHS Child Care Cluster expenditures at the federal medical assistance rate.

(2) DHS did not adjust cash draw amounts for administrative expenditures for LIHEAP and the Child Care Cluster as required by the CMIA. As a result, the State lost interest of approximately $6,300 by not drawing the full amount available for LIHEAP administrative expenditures. The interest effect for the Child Care Cluster could not be determined at the time of our audit because DHS had not calculated the appropriate adjustment.

The CMIA requires DHS to calculate and adjust cash draw amounts for administrative expenditures based on cost allocation information from the prior quarter.

b. DHS did not submit complete and accurate information to the Michigan Department of Treasury in its annual CMIA report. As a result, calculations of

interest due to and from the U.S. Department of Treasury were incorrect. Our review disclosed:

(1) DHS did not include information in its fiscal year 2003-04 annual report to the Michigan Department of Treasury regarding the excess cash draws for the Rehabilitation Services: Vocational Rehabilitation Grant to States and the Child Care Cluster noted in item a.(1) of this finding. As a result, interest due the U.S. Department of Treasury was understated by approximately $4,500.

(2) DHS did not include information in its fiscal year 2002-03 annual report to the Michigan Department of Treasury to request reimbursement from the U.S. Department of Treasury for interest due the State for providing State General Fund/general purpose funds to operate the Food Stamp Cluster pending receipt of federal cash draws. As a result, the State lost interest of approximately $2,400.

(3) DHS included erroneous information in the fiscal year 2002-03 annual report to the Michigan Department of Treasury related to interest due from the U.S. Department of Treasury for the Adoption Assistance Program. DHS included the State and federal share of payroll costs in the interest due calculation instead of only the federal share. As a result, DHS received approximately $2,000 of excess interest revenue in fiscal year 2002-03.

RECOMMENDATION

We recommend that DHS improve its internal control to ensure compliance with federal cash management requirements contained in the CMIA.

FINDING 430522

22. Schedule of Expenditures of Federal Awards (SEFA)

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 22646 99 LOC 22646 01 8MI400067 2MI400100 2MI420122 EBT-02 EBT-03 EBT-04	Award Period: 10/01/1998 - 09/30/1999 10/01/2000 - 09/30/2001 09/27/2001 - 10/30/2004 10/01/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006
	Questioned Costs: $0
U.S. Department of Justice	*CFDA* 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
	Questioned Costs: $0

U.S. Department of Energy	*CFDA* 81.042: Weatherization Assistance for Low-Income Persons
Award Number DE-FG45-97R530352 DE-FG45-04R530681	Award Period: 04/01/1997 - 03/31/2004 04/01/2004 - 03/31/2009
	Questioned Costs: $0

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 02-01-MI-TANF G 03-01-MI-TANF G 04-01-MI-TANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0
U.S. Department of Health and Human Services	*CFDA* 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 01 AA MI 5110 G 02 AA MI 5110 G 03 AA MI 5100 G 03 AA MI 5110 G 04 AA MI 5100	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	Child Care Cluster: *CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.585: Social Services in Empowerment Zones and Enterprise Communities
Award Number: G 95 01 MI ECUR G 95 02 MI ECUR G 96 01 MI EZUR	Award Period: 12/21/1994 - 12/31/2009 12/21/1994 - 12/21/2005 10/01/1995 - 12/21/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/02 - 09/30/03 10/01/03 - 09/30/04
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	Medicaid Cluster: *CFDA* 93.778 Medical Assistance Program (Medicaid; Title XIX)
Award Number: 05 03 05 MI 5028 05 03 05 MI 5048 05 04 05 MI 5028 05 04 05 MI 5048	Award Period: 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $0

Social Security Administration	Disability Insurance/SSI Cluster: *CFDA* 96.001 Social Security - Disability Insurance
Award Number: 01-04-MIDI-00 01-04-MIDI-02 02-04-MIDI-00 02-04-MIDI-02 03-04-MIDI-00 03-04-MIDI-02 04-04-MIDI-00 04-04-MIDI-02	Award Period: 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $0

This finding is included in Section II of the schedule of findings and questioned costs (430501).

FINDING 430523

23. Backup and Disaster Recovery Plans

U.S. Department of Agriculture	Food Stamp Cluster: *CFDA* 10.551 Food Stamps; *CFDA* 10.561 State Administrative Matching Grants for Food Stamp Program
Award Number: LOC 22646 99 LOC 22646 01 8MI400067 2MI400100 2MI420122 EBT-02 EBT-03 EBT-04	Award Period: 10/01/1998 - 09/30/1999 10/01/2000 - 09/30/2001 09/27/2001 - 10/30/2004 10/01/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.523: Juvenile Accountability Incentive Block Grants
Award Number: 1999-JB-VX-0026 2000-JB-VX-0026 2001-JB-BX-0026 2002-JB-BX-0050 2003-JB-BX-0043	Award Period: 04/01/2000 - 03/31/2002 11/03/2000 - 11/02/2003 12/03/2001 - 12/02/2004 06/14/2002 - 10/06/2005 11/21/2003 - 11/20/2006
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.540: Juvenile Justice and Delinquency Prevention: Allocation to States
Award Number: 2001-JF-FX-0026 2002-JF-FX-0026 2003-JF-FX-0017	Award Period: 10/30/2000 - 09/30/2004 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Justice	*CFDA* 16.588: Violence Against Women Formula Grants
Award Number: 2001-WF-BX-0041 2002-WF-BX-0038 2003-WF-BX-0193	Award Period: 06/01/2001 - 05/31/2003 01/01/2002 - 12/31/2003 04/01/2003 - 03/31/2005
	Questioned Costs: $0

U.S. Department of Energy	*CFDA* 81.042: Weatherization Assistance for Low-Income Persons
Award Number: DE-FG45-97R530352 DE-FG45-04R530681	Award Period: 04/01/1997 - 03/31/2004 04/01/2004 - 03/31/2009
	Questioned Costs: $0

U.S. Department of Education	*CFDA* 84.126: Rehabilitation Services: Vocational Rehabilitation Grants to States
Award Number: H-126A-02-0031 H-126A-03-0031	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.558: Temporary Assistance for Needy Families
Award Number: G 0201MITANF G 0301MITANF G 0401MITANF	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.563: Child Support Enforcement
Award Number: G 03 04 MI 4004 G 04 04 MI 4004	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.566: Refugee and Entrant Assistance: State Administered Programs
Award Number: G 01 AA MI 5110 G 02 AA MI 5110 G 03 AA MI 5100 G 03 AA MI 5110 G 04 AA MI 5100	Award Period: 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.568: Low-Income Home Energy Assistance
Award Number: G 01 01 MI LIE5 G 02 01 MI LIE3 G 02 B1 MI LIEA G 03 B1 MI LIEA G 04 B1 MI LIEA	Award Period: 09/30/2001 - 09/30/2004 10/01/2001 - 09/30/2003 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004 10/01/2003 - 09/30/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	Child Care Cluster: *CFDA* 93.575 Child Care and Development Block Grant; *CFDA* 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Number: G 00 01 MI CCD2 G 01 01 MI CCD2 G 02 01 MI CCDF G 03 01 MI CCDF G 04 01 MI CCDF	Award Period: 10/01/1999 - 09/30/2002 10/01/2000 - 09/30/2003 10/01/2001 - 09/30/2004 10/01/2002 - 09/30/2005 10/01/2003 - 09/30/2006
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.585: Social Services in Empowerment Zones and Enterprise Communities
Award Number: G 95 01 MI ECUR G 95 02 MI ECUR G 96 01 MI EZUR	Award Period: 12/21/1994 - 12/31/2009 12/21/1994 - 12/21/2005 10/01/1995 - 12/21/2005
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.658: Foster Care: Title IV-E
Award Number: 03 01 MI 1401 04 01 MI 1401	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.659: Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	*CFDA* 93.674: Chafee Foster Care Independent Living
Award Number: G 02 01 MI 1420 G 03 01 MI 1420	Award Period: 10/01/2001 - 09/30/2003 10/01/2002 - 09/30/2004
	Questioned Costs: $0

U.S. Department of Health and Human Services	Medicaid Cluster: *CFDA* 93.778 Medical Assistance Program (Medicaid; Title XIX)
Award Number: 05 03 05 MI 5028 05 03 05 MI 5048 05 03 05 MI 5028 05 03 05 MI 5048	Award Period: 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $0

Social Security Administration	Disability Insurance/SSI Cluster: *CFDA* 96.001 Social Security - Disability Insurance
Award Number: 01-04-MIDI-00 01-04-MIDI-02 02-04-MIDI-00 02-04-MIDI-02 03-04-MIDI-00 03-04-MIDI-02 04-04-MIDI-00 04-04-MIDI-02	Award Period: 10/01/2000 - 09/30/2001 10/01/2000 - 09/30/2001 10/01/2001 - 09/30/2002 10/01/2001 - 09/30/2002 10/01/2002 - 09/30/2003 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004 10/01/2003 - 09/30/2004
	Questioned Costs: $0

This finding is included in Section II of the schedule of findings and questioned costs (430502).

The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.

OTHER SCHEDULES

DEPARTMENT OF HUMAN SERVICES*

Summary Schedule of Prior Audit Findings

As of June 20, 2005

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430306
Finding Title: Child Support Accrual

Finding: The Family Independence Agency (FIA) did not maintain subsidiary records to support its new methodology to estimate the fiscal year 2001-02 child support accrual.

Comments: The child support accrual considers federal tax offset data in its calculation. This data is part of the subsidiary records supporting the calculation but it cannot be accessed by the Office of the Auditor General because of federal restrictions. To compensate for the restriction, a query was developed for the fiscal year ended September 30, 2003. FIA's Office of Child Support and Office of Internal Audit tested the query calculations to case records and determined that the query provided accurate information. Appropriate documentation is maintained to support the accrual calculation.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430308
Finding Title: Cash Receipting at Central Office

Finding: FIA's internal control over the central office cash receipting process did not ensure separation of duties and secure storage of cash receipts.

Comments: One employee keys the checks and negotiable instruments into a cash receipts database program and runs a daily summary report with a corresponding check count and dollar totals. Another employee independently runs a calculator tape from the opened documents. Errors or irregularities will be immediately recognized upon comparison from both calculations and resolved. Each employee will initial the calculator tape and the daily printout. Administrative Handbook item 904 will be revised to reflect this procedure.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430309
Finding Title: Encumbrances

Finding: FIA's internal control did not ensure that encumbrances were recorded in accordance with generally accepted accounting principles (GAAP).

Comments: DHS continues to provide year-end closing workshops, during which the guidelines for encumbrances are reviewed. The Bureau of Accounting works with the Office of Internal Audit to review year-end work sheets for proper GAAP encumbrances.

Audit Findings Not Fully Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430301
Finding Title: Recording of Revenue

Finding: FIA's process to record certain revenue adjustments did not ensure that revenue was recorded in accordance with GAAP.

Comments: DHS has taken action to ensure that revenue adjustments are prepared in accordance with the Office of Financial Management and GAAP requirements. DHS disagreed with item b. of the finding and no action has been taken. A supplemental

appropriation was issued and a journal voucher was completed to show expenditures in appropriation number 81250 for $15.3 million in fiscal year 2003-04.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430302
Finding Title: Local Accounting System Replacement (LASR)

Finding: FIA's LASR controls did not ensure that assets are safeguarded, transactions are properly approved, and improper transactions are prevented and detected.

Comments: DHS is working with local office staff to address appropriate separation of duties; however, limited resources remain a factor. Fiscal reviews are being conducted and will continue as resources allow. A new/modified supplier/vendor report was created in December 2003 to monitor new vendors. The report is periodically reviewed by a staff member from the Bureau of Accounting. LASR payments cannot be completely reconciled to the Michigan Administrative Information Network (MAIN) because some payments issued by LASR are local funds. The local office reimbursement process facilitates verification that all State reimbursable transactions are reconciled to the State accounting records.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430303
Finding Title: Cash Management

Finding: FIA's internal control did not ensure that federal funds were drawn on a timely basis.

Comments: FIA made changes to its drawdown policy in May 2003. Backup staff have been assigned. The process has been changed so that DHS will submit a claim to the Michigan Department of Treasury even when the U.S. Department of Treasury has said that it will reject the claim.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430304
Finding Title: Payroll Expenditures

Finding: FIA did not comply with established controls over payroll expenditures.

Comments: When certifiers have the capability to perform their function on-line, Personnel Services will ensure that timekeepers are placed on a separate time keeping unit.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430305
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Finding: FIA's SEFA preparation process did not ensure complete and accurate presentation of its SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 and State financial management policies.

Comments: DHS is developing a system for tracking contract payments so that it can accurately determine the amounts distributed to recipients that will reconcile to the payments recorded in MAIN.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430307
Finding Title: Expenditure Documentation

Finding: FIA did not maintain a record of the location of the supporting documentation for many of its expenditures.

Comments: The Bureau of Accounting is working with the Office of Internal Audit and the Office of the Auditor General to reduce the time required to locate expenditure documentation. A reference document will be provided to the Office of the Auditor General showing the locations of documents.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430314
Finding Title: Rehabilitation Services: Vocational Rehabilitation Grants to States (Rehabilitation Services Program), *CFDA* 84.126

Finding: FIA's internal control over the Rehabilitation Services Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, reporting, and special tests and provisions.

Comments: The Michigan Commission for the Blind, which operates the Rehabilitation Services Program, was transferred to the Department of Labor and Economic Growth on December 7, 2003, per Executive Order No. 2003-18.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430320
Finding Title: Child Welfare Services: State Grants (CWSS), *CFDA* 93.645

Finding: FIA's internal control over the CWSS Program did not ensure its compliance with State and federal laws and regulations regarding allowable costs/cost principles.

Comments: The Children's Services Administration worked with the Bureau of Accounting to improve its internal control over the CWSS Program to take appropriate actions.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430324
Finding Title: Cost Allocation Plan

Finding: FIA's internal control over its cost allocation plan did not ensure the use of correct allocation percentages.

Comments: The error cited in the finding was identified and corrected in the quarter ended March 31, 2003, when corrected information was available. DHS reviews the allocation percentages entered to ensure accuracy.

Audit Period: October 1, 2001 through September 30, 2003 (Financial Audit, Including the Provisions of the Single Audit Act, of the Department of Consumer and Industry Services)

Finding Number: 630402
Finding Title: Child Care and Development Block Grant (CCDBG), *CFDA* 93.575

Finding: The Department of Consumer and Industry Services' controls over CCDBG did not ensure compliance with federal laws and regulations and interagency grant agreement requirements regarding allowable costs/cost principles and reporting.

Comments: As a result of Executive Order No. 2003-18, DHS now administers the CCDBG Program directly and the subrecipient relationship was eliminated. The Bureau of Accounting has controls in place to ensure that costs are treated in accordance with OMB Circular A-87 requirements.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430310
Finding Title: Food Stamp Cluster, *CFDA* 10.551 and 10.561

Finding: FIA's internal control over the Food Stamp Cluster did not ensure its compliance with federal laws and regulations regarding eligibility and special tests and provisions.

Comments: DHS is implementing corrective action, including (1) enhancements to the Case Read and Reread System (CRIS), (2) Find and Fix, an automated process for matching data income

available via tape match with client budget information and make the correction; and (3) additional automated support for income budgeting and eligibility determination. The anticipated implementation is in September 2005.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430311
Finding Title: Juvenile Accountability Incentive Block Grants (JAIBG), *CFDA* 16.523

Finding: FIA's internal control over the JAIBG Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles and reporting.

Comments: Staff have been trained and measures are in place to train new staff to ensure compliance with the requirements of OMB Circular A-87. Controls have been strengthened to require additional signatures. The Budget Unit, Bureau of Juvenile Justice, is required to conduct quarterly audits of all JJDP and JAIBG program expenditures to ensure that they comply with requirements. Monthly meetings are held with the Bureau of Accounting to review financial reports that are submitted for federal reporting. The Michigan Automated Grant Information Connection (MAGIC) provides for monitoring of the quarterly, semiannual, and final performance reports. The reports compiled on MAGIC are electronically forwarded to the U.S. Office of Juvenile Justice and Delinquency Prevention.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430312
Finding Title: Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), *CFDA* 16.540

Finding: FIA's internal control over the JJDP Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles.

Comments: Staff have been trained and measures are in place to train new staff to ensure compliance with the requirements of OMB Circular A-87. Controls have been strengthened to require additional signatures. The Budget Unit, Bureau of Juvenile Justice, is required to conduct quarterly audits of all JJDP and JAIBG program expenditures to ensure that they comply with requirements. Monthly meetings are held with the Bureau of Accounting to review financial reports that are submitted for federal reporting. The automated grants system, MAGIC, provides for monitoring of the quarterly, semiannual, and final performance reports. The reports compiled on MAGIC are electronically forwarded to the U.S. Office of Juvenile Justice and Delinquency Prevention.

Audit Period: October 1, 2000 through September 30, 2002

Finding Number: 430313

Finding Title: Violence Against Women Formula Grants (VAW), *CFDA* 16.588

Finding: FIA's internal control over the VAW Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles; matching, level of effort, and earmarking; reporting; and subrecipient monitoring.

Comments: DHS has established an internal system for additional documentation by State, federal, fiscal, contract, and subcontract year. A more extensive coding system, which will allow the expenditures to be tracked on MAIN, will be implemented in October 2005. The Michigan Domestic Violence Prevention and Treatment Board (MDVPTB) ensures that all match information is submitted to DHS's Division of Revenue and Federal Reporting. Federal reports are reconciled to MDVPTB records on a quarterly basis.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430315
Finding Title: Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

Finding: FIA's internal control over the TANF Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions.

Comments: DHS is eliminating the requirement to complete the FIA-1171-C (eligibility determination and certification form). The documentation requirements will be rolled into a revised FIA-1171 (assistance application). A desk-aid for staff will be developed to emphasize the importance of documenting eligibility factors. FIA automated Work First referrals on its systems in September 2003. This eliminates missed referrals and automatically stores referral dates. DHS plans to complete an interface of its systems and the Department of Labor and Economic Growth's systems to ensure that Work First compliance is documented on DHS's systems and eliminate instances when noncompliance is not acted upon. DHS has established a systems integration team that will recommend systems solutions.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430316
Finding Title: Child Support Enforcement (CSE), *CFDA* 93.563

Finding: FIA's internal control over the CSE Program did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, equipment and real property management, and special tests and provisions.

Comments: DHS continues to implement new policies and procedures to ensure compliance with federal laws and regulations.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430317
Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Finding: FIA's internal control over REAP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, procurement and suspension and debarment, reporting, and subrecipient monitoring.

Comments: DHS is taking action to ensure that case files contain appropriate documentation for eligibility and services provided. A foster care analyst will be hired to oversee billings, nonscheduled payment approvals, establishment of central office unaccompanied refugee minor files, and to conduct case file reviews. REAP staff will work with Field Operations staff to implement a case file review process, with Personnel Services to document payroll, and with the Office of Internal Audit to determine expectations for OMB Circular A-133 subrecipient audits.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430318
Finding Title: Low-Income Home Energy Assistance (LIHEAP), *CFDA* 93.568

Finding: FIA's internal control over LIHEAP did not ensure its compliance with federal laws and regulations regarding allowable costs/cost principles, eligibility, and reporting.

Comments: Case packet instructions were completed in May 2004. Blackboard training to assist workers with policy was implemented in March 2004. Proposed changes to the on-line manuals will allow users to better track policy clarifications. Annual case reads will be conducted. The State Emergency Relief budget will be put on Local Office Automation II (LOA2) to assist with accurate determinations and payments.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430319
Finding Title: Child Care Cluster, *CFDA* 93.575 and 93.596

Finding: FIA's internal control over the Child Care Cluster did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, eligibility, and reporting.

Comments: A system change was made in fall 2002 to correct the name search format for criminal history checks on day care aides and relative care providers. Criminal history checks are conducted once a month. Policy was changed to identify required documentation for the case file. Revised case packet covers and the case reading form have been provided to field staff.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430321
Finding Title: Foster Care: Title IV-E, *CFDA* 93.658

Finding: FIA's internal control over the Foster Care Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility.

Comments: DHS policy and procedures mandate supervisory review and approval of case plans. Proposed case management system changes will result in an electronic approval process where the supervisor must review and sign before further case plan activities can be completed by the worker. Edits in the Services Worker Support System for Foster Care, Adoption, and Juvenile Justice (SWSS-FAJ) payment module have been added to deter issuance of Title IV-E payments without the proper determination being made. The State Court Administrative Office is training local courts to properly word court orders to ensure that eligibility is correctly determined. FIA has submitted a program improvement plan to address administrative deficiencies.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430322
Finding Title: Adoption Assistance, *CFDA* 93.659

Finding: FIA's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding eligibility.

Comments: The adoption subsidy manager reviewed criminal history background check requirements, payment requirements, and adoption subsidy agreements with staff. A new form was developed to ask specific questions on criminal history. The Adoption Subsidy Office continues to develop an automated system to track annual report submission by the adoptive parents.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430323
Finding Title: Chafee Foster Care Independent Living (CFCIP), *CFDA* 93.674

Finding: FIA's internal control over CFCIP did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, and earmarking; and subrecipient monitoring.

Comments: DHS has requested technical assistance from the National Resource Center and the U.S. Department of Health and Human Services regarding the proper use of the CFCIP funds. A staff person now oversees CFCIP, including the authorization of payments. A new report is being developed to track CFCIP expenditures, including recipient information. The Children's Services Administration plans to hire a financial specialist to monitor and track program expenditures. DHS is working on an information technology service request to incorporate the FIA-4713 (service youth profile report) into SWSS-FAJ to track expenses for each eligible youth in care. Monitoring of subrecipients in accordance with OMB Circular A-133 will be performed.

Audit Period: October 1, 2000 through September 30, 2002
Finding Number: 430325
Finding Title: Suspension and Debarment

Finding: FIA had not established internal control to ensure that it did not contract with or make grant awards to parties that had been suspended or debarred.

Comments: The Office of Contracts and Rate Setting checks the federal and State debarment listings prior to entering into a contract. Language has been added to the contract for the contractors to certify that they have not been suspended or debarred.

* Executive Order No. 2004-38 renamed the Family Independency Agency as the Department of Human Services effective March 15, 2005. Executive Order No. 2003-18, which became effective December 7, 2003, transferred the Bureau of Family Services, an organizational unit with the Department of Labor and Economic Growth (DLEG) (formerly the Department of Consumer and Industry Services) from DLEG to DHS. The Bureau of Family Services was responsible for the Child Care Development Block Grant (*CFDA* 93.575) that FIA passed through to the Department of Consumer and Industry Services as a subrecipient. As a result, DHS is responsible for the prior audit finding related to the Department of Consumer and Industry Services (Finding 630402).

DEPARTMENT OF HUMAN SERVICES

Corrective Action Plan

As of November 28, 2005

FINDINGS RELATED TO THE FINANCIAL SCHEDULES AND FINANCIAL STATEMENTS

Finding Number: 430501

Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

Management Views: The Department of Human Services (DHS) agrees.

Corrective Action: DHS will continue to footnote its expenditures that are financed by revenues with the federal character of object classification as reflected in the *State of Michigan Comprehensive Annual Financial Report's* schedule of revenue and other financing sources - General Fund. DHS is developing a new contract tracking/payment system that will automate the reconciliation with the Michigan Administrative Information Network (MAIN).

Anticipated Completion Date: October 1, 2007

Responsible Individual: Russell Hecko

Finding Number: 430502

Finding Title: Backup and Disaster Recovery Plans

Management Views: DHS agrees.

Corrective Action: The Department of Information Technology (DIT) will comply with items a. and b. DHS will update local office business resumption plans. As DIT designs enterprise-wide strategies to conduct recovery tests,

DHS and DIT will coordinate efforts to comply with the finding.

Anticipated Completion Date: December 31, 2007

Responsible Individuals: Pratin Trivedi, DHS
Lynn Draschil, DIT

Finding Number: 430503
Finding Title: Children's Trust Fund (CTF)

Management Views: DHS agrees.

Corrective Action: Internal controls have been put into place for all audit findings. Fund-raising items are now inventoried, account codes for targeted expenditures have been established, and the CTF director authorizes all expenditures and maintains supporting documentation.

Anticipated Completion Date: Completed October 2005

Responsible Individual: Deborah Strong

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 430504

Finding Title: Internal Control Over Federal Programs

Management Views: This is a summary of other findings in the report.

Corrective Action: Please refer to specific findings related to internal control issues.

Anticipated Completion Date: Please refer to specific findings related to internal control issues.

Responsible Individuals: Various

Finding Number: 430505
Finding Title: Food Stamp Cluster, *CFDA* 10.551 and 10.561

Management Views: DHS agrees.

Corrective Action: Please refer to Findings 17, 18, and 21. While the information was already in the DHS Accounting Manual, it was also added to the Program Policy Manual effective July 1, 2005. The bridge card reconciliation process is in place. DHS is working with the contractor to provide better reporting to improve the process.

Anticipated Completion Date: June 1, 2006

Responsible Individual: Jeni Ottney

Finding Number: 430506
Finding Title: Juvenile Accountability Incentive Block Grants (JAIBG), *CFDA* 16.523

Management Views: DHS agrees.

Corrective Action: Coding structure specific to tracking future grant "match" dollars has been established in MAIN. The Bureau of Juvenile Justice has begun quarterly meetings with the DHS Federal Reporting Unit to reconcile reports.

Anticipated Completion Date: Completed June 2005

Responsible Individual: Leonard Dixon

Finding Number: 430507

Finding Title: Juvenile Justice and Delinquency Prevention: Allocation to States (JJDP), *CFDA* 16.540

Management Views: DHS agrees.

Corrective Action: Staff will be trained to ensure compliance with U.S. Office of Management and Budget (OMB) Circular A-87. Internal controls will be strengthened to require additional signatures, and program expenditures will be certified quarterly.

Anticipated Completion Date: February 1, 2006

Responsible Individual: Leonard Dixon

Finding Number: 430508

Finding Title: Violence Against Women Formula Grants (VAW), *CFDA* 16.588

Management Views: DHS disagrees. The Michigan Domestic Violence Prevention and Treatment Board (MDVPTB) disagrees with the questioned cost determination. Diligent effort was made to comply with the intent of the federal regulations, including extensive monitoring of the earmarking and match requirements. MDVPTB tracked the earmarking during the State contract period rather than the federal grant period based on the precedence of the Subgrant Award Performance Report (SAPR), which allowed state subgrantees to designate the report period based on their state fiscal year.

Corrective Action: MDVPTB developed and implemented extensive new processes to track earmarking and match requirements based on the federal grant period.

Anticipated Completion Date: Completed October 2004

Responsible Individual: Debi Cain

Finding Number: 430509

Finding Title: Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

Management Views: DHS agrees in part. DHS disagrees with the following items:

Activities Allowed or Unallowed, item a.
Allowable Costs/Cost Principles, items b.(1)(a) through (d) and (f)
Eligibility, item c.

DHS disagrees that failure to document or verify eligibility factors in hard copy represents a material internal control weakness. Documentation and verifications are available electronically.

Corrective Action: DHS policy is being updated to reflect preference for electronic documentation and verification. Eligibility documentation and case records will be primarily electronic with the implementation of the integrated eligibility system (Bridges) beginning in 2007. The assistance application has been redesigned and will be implemented in early 2006. The U.S. Department of Health and Human Services has approved a Corrective Compliance Plan related to sanctions for noncooperation with Child Support Enforcement requirements.

Anticipated Completion Date: September 30, 2008

Responsible Individual: Jeni Ottney

Finding Number: 430510
Finding Title: Child Support Enforcement (CSE), *CFDA* 93.563

Management Views: DHS agrees.

Corrective Action: The Statewide implementation of the Michigan Child Support Enforcement System (MiCSES) in September 2003 completely resolved this finding.

Anticipated Completion Date: Completed September 2003

Responsible Individual: Duane Noworyta

Finding Number: 430511
Finding Title: Refugee and Entrant Assistance: State Administered Programs (REAP), *CFDA* 93.566

Management Views: DHS agrees.

Corrective Action: DHS has signed contract amendments for refugee foster care in place, and new contracts will be effective April 15, 2006. DHS will issue policy guidelines for refugee foster care expenditures, will correct direct supportive services accounts, and will implement a bill payment process to ensure correct authorization signatures.

Anticipated Completion Date: April 15, 2006

Responsible Individual: Al Horn

Finding Number: 430512
Finding Title: Low-Income Home Energy Assistance, *CFDA* 93.568

Management Views: DHS agrees in part. DHS disagrees with the following items:

Activities Allowed or Unallowed, item a.(1)
Allowable Costs/Cost Principles, items b.(2)(a) and b.(2)(b)
Matching, Level of Effort, and Earmarking, item e.(2)

Regarding items a.(1) and e.(2), there is adequate documentation that DHS used leveraging incentive funds properly. Regarding home heating credit allowable costs, DHS believes the benefits of a reconciliation process with the Department of Treasury do not outweigh the costs. No errors have been found in fiscal year 2004-05 or in the fiscal year 2003-04 sample that was tested.

In addition, although DHS agrees with items e.(1) and g., DHS believes that the estimated administrative questioned costs in items e.(1) and g. are too high and should be reduced to $575,716.

Corrective Action: DHS has made systems and policy changes where appropriate. Staff have been notified of changes and reminded of the importance of accurate case documentation.

Anticipated Completion Date: Completed October 2005

Responsible Individual: Joan Lamoreaux

Finding Number: 430513
Finding Title: Child Care Cluster, *CFDA* 93.575 and 93.596

Management Views: DHS agrees.

Corrective Action: The program office has developed a child day care case reading form and has eliminated policy that allows a child day care case to be opened with minimum verifications. The Child Care and Development Fund State Plan was amended, and staff from DHS, DIT and the Department of Management and Budget have met to begin working on a process to ensure that required child care certificates are logged and that the logs are maintained and accessible.

Anticipated Completion Date: April 30, 2006

Responsible Individual: Jeni Ottney

Finding Number: 430514
Finding Title: Foster Care: Title IV-E, *CFDA* 93.658

Management Views: DHS agrees.

Corrective Action: DHS has implemented a Program Improvement Plan approved by the U.S. Department of Health and Human Services to address errors in determination of Title IV-E eligibility. Account coding will be corrected to properly charge adoption performance contracts.

Anticipated Completion Date: March 31, 2006

Responsible Individuals: Mary Chaliman, Foster Care
Kate Hanley, Adoption

Finding Number: 430515
Finding Title: Adoption Assistance, *CFDA* 93.659

Management Views: DHS agrees.

Corrective Action: Adoption Subsidy Unit staff have reviewed policy and proper account coding. The Unit supervisor has trained staff on the interim manual document review process to improve accuracy and reconcile MAIN reports.

Anticipated Completion Date: September 2005

Responsible Individual: Kate Young

Finding Number: 430516
Finding Title: Chafee Foster Care Independent Living, *CFDA* 93.674

Management Views: DHS agrees.

Corrective Action: DHS has revised and released policy clarifying eligibility requirements and appropriate expenditures. The program office has established an additional review of expenditures to ensure compliance.

Anticipated Completion Date: Completed October 2005

Responsible Individual: Mary Chaliman

Finding Number: 430517
Finding Title: Procurement and Suspension and Debarment

Management Views: DHS agrees.

Corrective Action: DHS established procedures to comply with suspension and debarment federal regulations in June 2004. DHS is in the process of reengineering the

contracting process to improve efficiency and address contract training issues.

Anticipated Completion Date: October 1, 2006

Responsible Individual: Helen Weber

Finding Number: 430518
Finding Title: Public Assistance Cost Allocation Plan (PACAP)

Management Views: DHS agrees.

Corrective Action: DHS will strengthen weaknesses in PACAP internal controls. The Bureau of Accounting is providing technical assistance to other areas of DHS.

Anticipated Completion Date: December 31, 2005

Responsible Individual: Lilia Denney

Finding Number: 430519
Finding Title: Federal Payroll

Management Views: DHS agrees.

Corrective Action: DHS issued a department-wide memorandum to address compliance with OMB Circular A-87. The Bureau of Accounting has identified impacted employees and will do quarterly follow-up beginning in January 2006.

Anticipated Completion Date: January 2006

Responsible Individual: Lilia Denney

Finding Number: 430520
Finding Title: Subrecipient Monitoring

Management Views: DHS agrees.

Corrective Action: DHS will implement a monitoring process for subrecipients. A management committee has been formed to draft policies and procedures related to a monitoring process.

Anticipated Completion Date: August 31, 2006

Responsible Individual: Bill Addison

Finding Number: 430521
Finding Title: Cash Management

Management Views: DHS agrees.

Corrective Action: DHS has begun an ongoing review process related to drawdowns to ensure accuracy and compliance with federal Cash Management Improvement Act (CMIA) requirements.

Anticipated Completion Date: July 2005

Responsible Individual: Lilia Denney

Finding Number: 430522
Finding Title: Schedule of Expenditures of Federal Awards (SEFA)

See Finding 430501 with the findings related to the financial schedules and financial statements.

Finding Number: 430523
Finding Title: Backup and Disaster Recovery Plans

See Finding 430502 with the findings related to the financial schedules and financial statements.

GLOSSARY

adverse opinion	An auditor's opinion in which the auditor states that: a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are not fairly presented in conformity with the disclosed basis of accounting; b. The financial schedules presenting supplemental financial information are not fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the financial schedules taken by themselves; or c. The audited agency did not comply, in all material respects, with the cited requirements that are applicable to each major federal program.
AFDC	Aid to Families with Dependent Children.
ARS	Automated Recoupment System.
CCDBG	Child Care and Development Block Grant.
CFCIP	Chafee Foster Care Independent Living Program.
CFDA	*Catalog of Federal Domestic Assistance.*
CFR	*Code of Federal Regulations.*

CMA	Cash, Medical, and Administration.
CMIA	Cash Management Improvement Act.
CSE	Child Support Enforcement.
CSES	Child Support Enforcement System.
CTF	Children's Trust Fund.
CWSS	Child Welfare Services: State Grants.
DHS	Department of Human Services.
DIT	Department of Information Technology.
DLEG	Department of Labor and Economic Growth.
DMB	Department of Management and Budget.
EBT	electronic benefits transfer.
EBT bridge card	A plastic magnetic stripe EBT card used to issue food and cash assistance benefits to eligible DHS customers electronically.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
FIA	Family Independence Agency.
FIA-1171	assistance application.
FIA-1171-C	eligibility determination and certification form.

financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FMG	Financial Management Guide.
FNS	Food and Nutrition Service.
FNS-209	status of claims against households report.
FNS-46	issuance reconciliation report.
FS-301	food stamp summary report.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
GH-280	recoupment activity report.
HHC	home heating credit.
HHS	U.S. Department of Health and Human Services.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
JAIBG	Juvenile Accountability Incentive Block Grants.
JCYOI	Jim Casey Youth Opportunity Initiative.
JJDP	Juvenile Justice and Delinquency Prevention: Allocation to States.

LASR	Local Accounting System Replacement.
LIHEAP	Low-Income Home Energy Assistance Program.
LOA2	Local Office Automation II.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
MAGIC	Michigan Automated Grant Information Connection.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MDVPTB	Michigan Domestic Violence Prevention and Treatment Board.
MI-1040CR-7	HHC claim form.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MiCSES	Michigan Child Support Enforcement System.
OFM	Office of Financial Management.
OMB	U.S. Office of Management and Budget.
OQA	Office of Quality Assurance.
ORR	Office of Refugee Resettlement.
ORR-6 report	quarterly performance report.
PACAP	Public Assistance Cost Allocation Plan.
qualified opinion	An auditor's opinion in which the auditor: a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules presenting supplemental financial information in relation to the basic

financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or

b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.

questioned cost A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

RCA Refugee Cash Assistance.

REAP Refugee and Entrant Assistance: State Administered Programs.

reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) initiate, record, process, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Violations of State laws, regulations, contracts, and grant agreements that should be communicated to management but are not material to the financial schedules and/or financial statements may also be reported.
RSS	Refugee Social Services.
SEFA	schedule of expenditures of federal awards.
SER	State Emergency Relief.
SF-269A	financial status report.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	*State of Michigan Comprehensive Annual Financial Report.*

SSI	Supplemental Security Income.
subrecipient	A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.
SWSS-FAJ	Services Worker Support System for Foster Care, Adoption, and Juvenile Justice.
TANF	Temporary Assistance for Needy Families.
UMP	Unaccompanied Refugee Minors Program.
unqualified opinion	An auditor's opinion in which the auditor states that: a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.
USC	*United States Code.*

USDA	U.S. Department of Agriculture.
VAW	Violence Against Women Formula Grants.

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